

**The Art of Sharing: The Richer Provinces Versus the Poorer Provinces Since  
Confederation**

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**ABSTRACT**

This thesis examines the social and political history of equalization, which is the federal program that allows all provinces to provide reasonably comparable levels of services for reasonably comparable levels of taxation. It examines why Ottawa adopted this mechanism in 1957, the models that it used for those grants, and how it established the formula based upon per capita tax revenues. The thesis moves from the establishment of subsidies at Confederation across the later decades of the nineteenth century into the twentieth century as politicians and bureaucrats gradually realized that few modern federations survive without relative equality among the member governments. It explores the fierce domestic debates and the Royal Commission studies during this struggle to address fiscal inequalities among provincial governments. It also investigates the international models that Ottawa consulted in its quest to devise equalization, concentrating upon the pivotal influence of Australia on Canada as well as Canada's influence on Australia.

The approach is state-centred because most policy-oriented groups did not consider the issue of fiscal inequality among provincial governments when they pushed for the expansion of social services. As well, the thesis considers the crucial influence of Prime Minister Louis St. Laurent during the federal discussions to devise an equalization formula. Caught in a devastating face-off with Quebec over the collection of tax revenues, St. Laurent defused the confrontation with these unobtrusive, non-conditional grants that equalized key tax revenues. With the adoption of equalization in 1957, Ottawa ensured that all

provinces could (almost) afford social programs. That cleared the way for vital federal grants to the provinces for social assistance, post-secondary education, hospital care and eventually Medicare.

In effect, equalization is the largely overlooked mechanism that has kept the federation together. And the history of its introduction has been too little explored.

**DEDICATION**

To Tom Courchene, who provided his remarkable scholarship on equalization.

And to my amazing husband, Tom Kierans, who has always provided faith, hope,  
kindness and wisdom

## ACKNOWLEDGEMENTS

In fairness, everyone warned me: a thesis is a long, tough journey. Without help along the way, it could even be impossible. I was foolhardy, but I was also fortunate. So many people across Canada and in Australia were there as I plodded through the archival records. They were often baffled and bemused by the topic: “You want to write about fiscal arrangements?” But they abetted the quest. And I am so grateful.

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Through the recommendation of the National Archives of Australia, I found the remarkable researcher Glenda Lynch who photographed lengthy Royal Commission reports and early Commonwealth Grants Commission reports that I could not secure on-line. At the University of Saskatchewan Archives, thanks to the advice of archivist Cheryl Avery, Jasmine Liska copied the J. B. McGeachy Confederation Clinic columns. At the Scotia Bank Archives, Andrea McCutcheon supplied the *Bank of Nova Scotia Monthly Reviews* for 1937, 1938 and 1939. Sarah Ravanat at the Tasmanian Parliamentary Library was so gracious when I arrived unannounced at the Hobart

Parliament Buildings: she digitized all of the files on L. F. Giblin as well as those on his remarkable family, including his father William Giblin, the former Tasmanian Premier.

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## INTRODUCTION

Scarcely anyone noticed when an obscure transfer program dubbed equalization commenced in Canada on April 1, 1957. Canadians were following dramatic events elsewhere – the difficult Suez settlement, the right-wing riots in Paris over North-African policy, the turmoil in the Russian economy. In Toronto, Progressive Conservative leader John Diefenbaker was already campaigning energetically – even though an over-confident Prime Minister Louis St. Laurent had not yet called an election for June 10. So, on that mild Ottawa Monday when equalization took effect, no one marked the occasion with fireworks or flowery speeches. No one hailed the program as the solution to decades of searching at home and abroad for a better way to remedy inequality in revenues among governments. Few remembered the generations of determined, often idealistic and occasionally eccentric Canadians who had fought for a fairer world.

But the unconditional transfer of federal funds to the poorer provinces was a dazzling breakthrough in the almost century-old struggle to make federalism work. Equalization grants are based on the notion that all provinces should be able to provide relatively similar services to their citizenry with relatively similar levels of taxation. The transfers narrow the gap between the average per-capita revenues that poorer provinces can raise and the per-capita amount that richer provinces pocket. In 1957, those no-strings-attached transfers represented both a pragmatic federal compromise with the struggling provinces *and* a lifesaver for national unity.

In effect, equalization accomplished two huge tasks: it provided sufficient revenues to the poorer provinces for social security – *and* it mollified Quebec, which had paid a steep fiscal price for its refusal to cooperate with Ottawa’s post war efforts to centralize revenues. *Now* richer provinces could expand their social programs for health care, post-secondary education and welfare with the knowledge that the poorer provinces could (barely) afford them. *Now* Canadians could take a (very) temporary break from the struggle to preserve national unity – because Quebec was pocketing unconditional federal funds that it could earmark for its own priorities. *Now* the provinces that resented Ottawa’s intrusions into their bailiwicks could count on one source of funding, which was calculated through a neutral formula and which came without application forms or heavy-handed conditions.

The effects were immediate. Equalization became the cornerstone of the expanding welfare state. With equalization funding, even the poorest provincial governments could agree with Ottawa on cost-sharing deals to pay for hospital care and eventually Medicare, post-secondary education and social assistance. Equalization was crucial to the existence of social security – and to the creation of transfer programs for specific social needs. As political economist Thomas Courchene notes: “Overarching, and critical to the well-being of most of these individual social programs, is the federal-provincial transfer system.... Unlike the typical European welfare state, which had its origins in national class politics, the Canadian welfare state arose not so much as part of an inclusive national social contract among citizens but as a way of addressing interregional and interprovincial

equity.”<sup>1</sup> Equalization tackled inequalities among the provinces – so that the provinces had sufficient funds to address social inequalities among their citizens.

But the publicity for this breakthrough in fiscal relations was negligible. Ottawa politicians worried that the richer provincial governments would resent the transfer of (more of) their taxpayers’ money to poorer provincial governments. Richer provinces hesitated to complain amid the ongoing miracle of post-war prosperity. (Ontario Premier Leslie Frost had been denounced as a “specially pampered partner” when he demanded more money for Ontario if the poorer provinces received more.)<sup>2</sup> Poorer provinces were reluctant to draw attention to their new windfall.

I contend, however, that the story of equalization is the *real* story of Canada’s maturation as a nation in the twentieth century. Then, as now, the operation of the federal form of government was a constant challenge. There were so many pressures – and there had to be so many compromises. Although the Constitution did not formally mark the division, Canada was composed of (at least) two nations – Francophones largely in Quebec and Anglophones largely in the Rest of Canada – and that complicated the fierce economic and cultural rivalries among the provinces. The Constitution did, however, recognize Quebec’s special status within Confederation: the province was guaranteed control of its civil law system; the use

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<sup>1</sup> Thomas J. Courchene, *Social Canada in the Millennium: Reform Imperatives and Restructuring Principles* (Toronto: C. D. Howe Institute, 1994) pps. 3,14. Courchene attributes a portion of this insight into the relatively diminished influence of class in Canada to social policy analyst Keith G. Banting in **“Neoconservatism in an Open Economy: The Social Role of the Canadian State” in *International Political Science Review* (1992) Volume 13, Number 2**, which I will also reference later.

<sup>2</sup> “Frost Criticized For Tax Stand On Ottawa Cash” in *The Globe and Mail*, Tuesday, December 18, 1956, p. 4.

of French and English in the courts and the legislature was guaranteed; and the rights of Catholic and Protestant minorities to education were protected. As historian Claude Bélanger at Marianopolis College noted tersely, equality among the provinces “did not mean that fundamental differences were not recognised.”<sup>3</sup>

First Nations were largely ignored then: their consent was not sought – even though their peoples represented another major component of the nation. The Constitution granted control over “Indians, and lands reserved for the Indians” to Ottawa: it was only in 1982 that existing aboriginal and treaty rights were affirmed – along with rights that could be acquired in future land claims agreements.<sup>4</sup> The federation had creaked along in the nineteenth century because provincial responsibilities were relatively limited – and their duties came closer to matching their revenues. But, in the twentieth century, Ottawa and the provinces could not escape the growing social and economic demands from their citizenry for an expanded role for the state.

But which state? Which level of government should pocket the revenues – and which level of government should control the programs? The very question would provoke fierce divisions along linguistic, provincial, religious, ethnic, regional, gender and class lines throughout the early decades of the twentieth century. Governments would fight over revenues and responsibilities. Citizens would debate

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<sup>3</sup> Claude Bélanger, Department of History, Marianopolis College, Readings in Quebec History, last updated August 2000:  
<http://faculty.marianopolis.edu/c.belanger/quebechistory/readings/special.htm>

<sup>4</sup> Constitution Act 1867, clause 91, section 24; Constitution Act 1982, clause 35.

the rights that they could and should expect from those governments. The answer would take decades to devise.

There were few models that could provide guidance – because there were so few federations. The first modern federal constitution was adopted in the United States in 1787.<sup>5</sup> Switzerland transformed itself into a federation in 1848 after a short civil war, and revised that pact in 1874. Canada was also an experiment: Although it appears startling now when federations are more common, Canada became the third modern federation in 1867. In 1871, the North German Federation of 1867 swallowed the southern German states. During the late 19<sup>th</sup> century, several Latin American nations including Argentina and Mexico adopted unstable federal structures that imitated the American model.<sup>6</sup> In 1901, six self-governing colonies in Australia united in a federation that would become *the* most important model for Canada.

The word “federation” is commonplace today because federalism has become an increasingly popular method for governing states with a high degree of diversity. Political scientist Ronald L. Watts notes that the system became increasingly popular in the second half of the twentieth century when there was a “proliferation of federations,” including Burma in 1948, Nigeria in 1954, Austria in 1945 and the

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<sup>5</sup> Political scientist Ronald L. Watts has briefly documented the history of pre-modern federal systems from ancient Israeli tribes in 1200 B.C.E. through the Roman Empire, mediaeval Italy, Germany and Switzerland. Both Watts and Feeley and Rubin attribute the first explicitly modern discussion of federalism to the seventeenth-century political philosopher Johannes Althusius.

<sup>6</sup> Ronald L. Watts, *Comparing Federal Systems, Third Edition* (Montreal & Kingston: McGill-Queen’s University Press, 2008) 3. Watts summarizes the history of 19<sup>th</sup> and 20<sup>th</sup> century federations.

restored federation of Germany in 1949.<sup>7</sup> The varying divisions of responsibilities and revenues among member governments are delicate balancing acts – and each nation finds workable adjustments or it fails. American law professors Malcolm M. Feeley and Edward Rubin observe that in the mid-19<sup>th</sup> century, “two-thirds of the world’s landmass was governed by imperial edict” while, in the early 21<sup>st</sup> century, “this same proportion of the world is governed by federal arrangement.”<sup>8</sup>

The two law professors define a federation as “a means of governing a polity that grants partial autonomy to geographically defined subdivisions of the polity.”<sup>9</sup> That is, smaller geographic units can govern key aspects of their residents’ lives while remaining part of a larger whole. Crucially, the two scholars add that the principal reason that nations adopt federal regimes “is to resolve conflicts among citizens that arise from the disjunction between their geographically based sense of political identity and the actual or potential geographic organization of their polity.”<sup>10</sup>

I accept that definition. I also accept the implication that federal states, particularly the Canadian state, could not exist without the diffusion of responsibilities and revenues among governments that federalism implies. By its very nature, federalism is a compromise.

Federalism was probably the only viable model of government for a nation that is not simply a pact among provinces but a union of two peoples. Political scientists

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<sup>7</sup> Watts, 3.

<sup>8</sup> Malcolm M. Feeley and Edward Rubin, *Federalism: Political Identity and Tragic Compromise* (Ann Arbor: The University of Michigan Press, 2008) 1.

<sup>9</sup> Feeley and Rubin, 12.

<sup>10</sup> Feeley and Rubin, 38.

Richard Simeon and Ian Robinson capture those complications perfectly: Canada's federal society is "characterized by deeply rooted territorial and linguistic interests and identities."<sup>11</sup> In this thesis, I will occasionally adopt Simeon and Robinson's use of the words "territorial identities," which are associated with "language, region, province...the divisions that made federalism necessary in the first place and which remain fundamental to understanding Canadian federalism."<sup>12</sup>

In effect, the term is linked to a specific geographic area within the federation: It is often interchangeable with provincial identities but, crucially, *not always*. Social and economic reformers must somehow adjust their demands to take account of those provincial identities – and figure out what level of government can best respond to their needs. Simeon and Robinson depict the federation as a complex reality, juggling those state-centered and society-centered models in a dialectical relationship. The problem of "Who can or will do what" is never static.

Governance was always complicated – because a unitary government was impossible. The disparate drafters of Confederation and their successors could not square the idea of a unitary government for Canada "with the sectional diversities in British North America of the 1860s – or at any time since."<sup>13</sup> As historian Ramsay Cook outlines, provincial rights were particularly important to Quebec because the province "exercised authority over those matters that were deemed essential to the

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<sup>11</sup> Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism* (Toronto: University of Toronto Press, 1990) 4.

<sup>12</sup> Richard Simeon and Ian Robinson, p. 4.

<sup>13</sup> Ramsay Cook, *The Maple Leaf Forever: Essays on Nationalism and Politics in Canada* (Toronto: Macmillan of Canada, 1977) 71

preservation of the French Canadian culture – education, religion, civil law.”<sup>14</sup> The constitutional division of powers allowed different cultural and religious groups to more easily influence smaller provincial governments.

Such trade-offs, however, set up the tug-of-war over revenues and responsibilities that remains the central dilemma of all federal states.

This thesis will examine the social and political history of equalization, the still-far-from-perfect program that tackles the fiscal inequalities among provincial governments. I will refer to inequalities among citizens, which I will examine through the statements of non-territorial groups representing gender and class. But the focus of this thesis will be on equalization as the remedy for fiscal inequalities among the federation partners. I will also analyze the interactions between Canada and several pivotal federations, particularly Australia, that Ottawa consulted for guidance on how to tackle fiscal inequalities among member governments. That search for international models became even more pressing after World War Two as groups such as trade unions and women’s organization pushed Ottawa to tackle social needs.

And, far from tracing the evolution of equalization *after* its formal establishment, I will look at the decades *prior* to that largely unrecognized milestone in April 1957 – the enabling legislation actually passed on July 31, 1956 – when the Canadian federation was grappling with deep social and fiscal inequalities among the provinces, and unsure how to handle them. There was no federal fiscal mechanism

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<sup>14</sup> Cook, p.71.



during those decades that would allow the poorer provinces to provide adequate services to their citizenry to strengthen social cohesion – and bring political stability. The few mechanisms that Ottawa deployed across those decades to alleviate fiscal inequality among the provinces often threatened provincial identities and national unity.

Indeed, the very notion of formal equalization was inconceivable in Ottawa. As I will show, this mindset was the primary obstruction to the adoption of equalization transfers. The central government regarded its fiscal control as pivotal to the continuance of the federation – and its role in the lives of its citizens. That was a dangerous assumption that hindered the development of the federation and the creation of mid-20<sup>th</sup> century social supports. Ottawa's line-in-the-sand ensured that Canada lagged internationally in the development of provincial social services.

Federal ministers and bureaucrats simply could not let go – and the relatively weak policy-oriented groups could not overcome that resistance. As social policy analyst Keith Banting has observed: “The most common interpretation of the politics of the welfare state sees social policy as a reflection of class politics. Viewed from this perspective, the political foundations of the Canadian welfare state are weak. In comparison with other Western nations, especially European ones, unionization is low, the labour movement is divided into several federations, and the system of collective bargaining is decentralized.”<sup>15</sup> Any class coalitions could not

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<sup>15</sup> Keith G. Banting, “Neoconservatism in an Open Economy: The Social Role of the Canadian State” in *International Political Science Review* (1992) Volume 13, Number 2, p. 153.

adequately address – let alone suggest remedies for – the fiscal inequalities among the provinces. But they could put growing pressure on Ottawa in the post-war era.

To tell the history of this underappreciated program from the 1920s to 1957, I will concentrate on Ottawa as the central player in a skein of relationships with other federations, provincial governments, and social reformers. In effect, I will adopt the state-centred approach that many political scientists have embraced, viewing government as an active political player that does not simply respond to the strongest pressure groups. As political scientist Alan C. Cairns posited in 1977: “Federal and provincial governments are not neutral containers, or reflecting mirrors, but aggressive actors steadily extending their tentacles of control, regulation, and manipulation into society.”<sup>16</sup> Or, as political scientist Donald Smiley underlined, “In Canada...governments influence private institutions – including those we designate as pressure groups – as they are influenced by them.”<sup>17</sup>

This has become a useful theoretical approach to the role of modern governments, especially when applied to federations. American historian Theda Skocpol depicts politicians and administrators “as the primary locus of action” in the origin and transformation of the welfare state: “they are actors in their own right, enabled and constrained by the political organizations within which they operate.”<sup>18</sup> States are “sites of autonomous action” that “intersect in varied ways with economic

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<sup>16</sup> Alan C. Cairns, “The Governments and Societies of Canadian Federalism” in *Canadian Journal of Political Science*, Vol 10. No. 4 (December 1977) p. 706.

<sup>17</sup> Donald Smiley, “Federal States And Federal Societies, With Special Reference To Canada” in *International Political Science Review*, Vol 5, No. 4, 1984. p. 448.

<sup>18</sup> Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States*. (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1992) 41.

and social transformations.”<sup>19</sup> Another American political scientist, Eric A. Nordlinger, wrote another superb analysis of the democratic state and the state-centred approach. “The preferences of the state are at least as important as those of civil society in accounting for what the democratic states does and does not do; the democratic state is not only frequently autonomous insofar as it regularly acts upon its preferences, but also markedly autonomous in doing so even when its preferences diverge from the demands of the most powerful groups in civil society.”<sup>20</sup>

But – and this is a large “But” – any examination of the state must expand beyond the formal institutions of government themselves to include political parties such as the social democratic Co-operative Commonwealth Federation, which attracted significant support during the mid-20<sup>th</sup> century.<sup>21</sup> It should also include the input of voluntary organizations such as labour and women’s groups. As political scientist Richard Simeon observes: “Of course federalism is about governments... but to argue that the explanation of the relations between these governments can be understood simply in governmental terms is wrong.”<sup>22</sup> I agree: as the powers of social groups increased in the changing post-war world, they put immense

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<sup>19</sup> Skocpol, 42, 39.

<sup>20</sup> Eric A. Nordlinger, *On The Autonomy Of The Democratic State* (Cambridge, Mass.: Harvard University Press, 1981) p. 1.

<sup>21</sup> Richard Simeon, “We Are All Smiley’s People: Some Observations on Donald Smiley And The Study Of Federalism” in *federalism and political community: Essays in Honour of Donald Smiley*, eds. David P. Shugarman and Red Whitaker (Peterborough, On.: Broadview Press Ltd., 1989) p. 420.

<sup>22</sup> Richard Simeon, “We Are All Smiley’s People: Some Observations on Donald Smiley And The Study Of Federalism” in *federalism and political community: Essays in Honour of Donald Smiley*, eds. David P. Shugarman and Red Whitaker. p. 420.

pressures on governments. I will consider such pressures in the context of their society and their increasingly strong effects on the provinces and Ottawa.

It is true that equalization itself is the product of state-centred forces. Ottawa designed and distributed the grants, richer provinces remained dubious about the amounts, poorer provinces welcomed them – and every recipient province cashed the cheques.

But, as I will show, Ottawa only launched a serious search to remedy inequality among governments when societal groups such as trade unions and women's groups, largely in the Rest of Canada, demanded the expansion of social security. Those groups did not care what level of government funded the programs. Virtually none of them understood that the primary barrier to the adoption of such programs was fiscal inequality among provincial governments. But their growing clout – coupled with Quebec's refusal in peacetime to play along with Ottawa's drive for fiscal centralization – forced the federal government to find a better way to share with the hard-pressed provinces.

I will also occasionally outline the role that specific personalities played within these dramas. In the 1860s, Nova Scotia politician Joseph Howe was determined to emphasize the adverse effects of Confederation on Nova Scotia's prosperity – and his strong warnings affected Maritime successors across the decades. Key federal bureaucrats in Ottawa in the 1930s and 1940s were determined to centralize revenues. Their influence, along with the testimony of Australian equalization superstar L. F. Giblin, shaped the approach to inequality in the pivotal report of the Royal Commission on Dominion-Provincial Relations in 1940. The vehement

objections of Quebec Premier Maurice Duplessis in the 1950s forced Ottawa to retreat from its desire to centralize revenues. Such individuals affected the debates – although I will not argue that personalities were pivotal to outcomes.

I do maintain that equalization was vital to the preservation of the modern Canadian federation. At Confederation, such arrangements were impossible – because the demands on governments were smaller and the richer provinces would never have tolerated overtly unequal treatment. But the political and economic conditions within the federation changed across time. Provincial governments could generally fulfill their relatively limited roles in the decades after Confederation. They could even scrape along during the 1920s as their economies and societies changed: Even the poorest provinces could generally make ends meet with federal subsidies that *implicitly* and, in rare instances, *explicitly* favoured them to a small extent.

But those governments would be shaken out of their complacency during the Depression. In the 1930s, there was no cradle-to-grave social safety net to save Canadians from hunger or ill health. The needy usually relied on their communities and their churches. Cities and towns doled out relief payments or vouchers to impoverished families and single women – but they often excluded single men. The qualifications for relief – which could be coupled with inspections – were humiliating. (Ontario's York Township, for one, demanded that deserted wives take

out an arrest warrant against their husbands when they applied for funds.)<sup>23</sup>

Governments could only respond on an ad hoc basis.

There had been advocates for a social safety net since the early years of the twentieth century as Canada urbanized and industrialized, stranding workers in manufacturing and industry without the back-up retreat of the family farm. As the Depression deepened, their voices grew stronger.

Meanwhile, key politicians and bureaucrats in Ottawa and several provincial capitals belatedly realized that the federation itself had to evolve to meet unanticipated needs. The federal government *had* to tackle the fiscal inequalities among the provinces or poorer provinces such as Manitoba and Saskatchewan might topple into bankruptcy or even secede. Their economies were export-based. When the markets for their agricultural products dwindled and drought savaged their lands, provincial incomes diminished. Provincial efforts “to develop resources or to bolster decaying industries.... left a legacy of deadweight debt.”<sup>24</sup>

There was a cascade of misery in the 1930s. Many poorer provinces could barely ensure that their poorer citizens were fed and clothed. Wealthier provinces such as Ontario could barely afford their share of the relief payments that municipalities doled out to needy families. Historians Raymond B. Blake and Jeff Keshen depict the Depression years as uniformly bleak: “[A]ttempts to deal with the destitution caused by a severe economic collapse were patterned after the nineteenth-century model of

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<sup>23</sup> Lara A. Campbell, *Respectable Citizens: Gender, Family, and Unemployment in Ontario's Great Depression*. (Toronto: University of Toronto Press, 2009) p. 80.

<sup>24</sup> J. A. Maxwell, “Notes And Memoranda On Some Appendices To The Rowell-Sirois Report” in *The Canadian Journal of Economics and Political Science*, Volume 7, Number 2, May, 1941, p. 246.

poor relief, supplemented with a growing dependency on voluntary charity.”<sup>25</sup> Poor Canadians in poorer provinces could not even hope for adequate provincial spending on their wretched hospitals and schools.

Theoretically, Ottawa had the money to expand social remedies...*somewhat*. But Ottawa did not want to act: Prime Minister Mackenzie King, who regained power in 1935, was pinching pennies to preserve Ottawa’s credit rating. He was hesitant to boost Ottawa’s contributions to the provincial relief tab. (He did that briefly in late 1935 – and then lowered them again in April 1936.) Perhaps more importantly, he saw unemployment as a provincial responsibility – which it theoretically was. The Judicial Committee of the British Privy Council would later affirm that view when it ruled that key elements of former Prime Minister R. B. Bennett’s New Deal including Unemployment Insurance were *ultra vires*. Historian Doug Owram notes that, when the British court hobbled the Canadian federation in 1937, senior Ottawa bureaucrats drew their own conclusion: “The vestiges of an imperial era now affected domestic reform.”<sup>26</sup>

Even so, it is unlikely that King would have acted generously or rashly. The Prime Minister had lived through the agonizing national debates over conscription during World War One – and he was deeply respectful of provincial turf. The elegant explanation of Simeon and Robinson for his hesitancy probably comes closest to the truth: During the Depression, the Prime Minister adopted a strategy of “minimal

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<sup>25</sup> Raymond B. Blake and Jeff Keshen, “Introduction” in *Social Welfare Policy in Canada. Historical Readings*, eds. Raymond B. Blake and Jeff Keshen (Toronto: Copp Clark Ltd., 1995) p. 3.

<sup>26</sup> Douglas Owram, *The Government Generation: Canadian Intellectuals and the State 1900-1945*. (Toronto: University of Toronto Press. 1986) p. 238.

federal activity, informed by his conviction that the principal threat to national unity lay in French-English conflict."<sup>27</sup> King did not want the dubious distinction of repeating history.

There were so many barriers during the 1930s to a formal remedy for fiscal inequalities among the governments. The provinces themselves were divided during those desperate Depression years. The gaps between the richer and the poorer provinces were too great; but the richer ones themselves were scrambling to survive. *They would never speak with a unified voice about the need for equalization until the era of post-war prosperity in the mid-1950s.* (Even then, Ontario would extract a price to come around.) Indeed, *inter-provincial* disagreement over help for the poorer provinces threatened social cohesion, stranding many provincial governments in a quagmire of debts, leaving them to fend off their angry and distraught voters.

Such strains among the provinces were a large factor in the comparatively late arrival of equalizing grants in the mid-1950s – and the social services that they would help to fund. Quebec viewed any federal spending on social programs as a threat to its distinct identity: The Roman Catholic Church provided many educational and social services. (Later, as the provincial government assumed oversight of those services, it would prudently guard its turf.) As well, Ottawa would not accept that the huge cultural and social differences among the provinces precluded the imposition of strong central control over the collection of revenues coupled with federal spending on new social remedies. The federation skittered

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<sup>27</sup> Simeon and Robinson, 82.



along with ad hoc loans and grants to the poorer provinces throughout the Depression – while Ottawa shuffled the issue of revenues and responsibilities to a Royal Commission.

In wartime, Ottawa dodged the central issue of inequality of fiscal resources and revenues among the provinces. Instead, in 1941, it exerted control over three key sources of provincial revenues through the threat of invoking the War Measures Act. In return, it resorted to the old ploy of compensatory grants that were carefully designed to look equal – but which tacitly favoured the poorer provinces to a small extent because richer provinces pocketed more money for each percentage point of tax. Ottawa then attempted to maintain such control in peacetime, endangering national unity and social cohesion.

It took another dozen years before Ottawa accepted that its schemes to centralize revenues were dangerously isolating Quebec, which had refused to let Ottawa collect its taxes after the war in return for those compensatory grants. (This federal approach is referred to as “renting” a province’s tax revenues.) The economic and political conditions were right for fiscal alternatives.

Such alternatives were necessary. The poorer provinces needed formal and more substantial unconditional assistance, while the richer provinces were finally prosperous enough to assent to this federal transfer of their taxpayers’ dollars. Most politicians now understood that *greater provincial fiscal equity could foster economic efficiency* so equalization became acceptable to richer and poorer governments. As political scientist Douglas M. Brown notes, equalization ensures that labour migration occurs “for reasons which contribute to economic growth and

development...not for access to better services.”<sup>28</sup> As well, Ottawa finally had sufficient funds for the grants as it “began to tap into Ontario’s rich fiscal capacity.”<sup>29</sup>

Modern federations flounder when the partners cannot find an agreeable way to share. In the end, Canada did not amend its constitution to survive increasing fiscal inequality among the provincial governments: It did *not* formally shuffle the division of revenues and responsibilities – although it would eventually tuck the principle of equalization into the Constitution in 1982. Instead, key Ottawa bureaucrats and politicians arranged and then rearranged the flow of federal funds to the provinces, groping for an ostensibly neutral way to ease fiscal inequality and political tensions.

By the mid-1950s, they had to succeed. Equalization was vital for two reasons. It restored peace with Quebec at a time when the province was losing millions of dollars in compensatory grants because of its resistance to Ottawa’s efforts to centralize revenues. As well, it provided all poorer provinces with funds to run their own social programs – because many provinces fiercely objected to the very idea that Ottawa would design and administer such programs. Equalization was a pragmatic compromise.

I will examine this interplay across the decades among governments, the so-called fiscal federalism that sounds obscure but is really the lifeblood of the nation. I will concentrate on the politicians and bureaucrats as they responded to each other,

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<sup>28</sup> Douglas M. Brown, *Equalization On The Basis Of Need In Canada* (Kingston: Institute of Intergovernmental Relations: Queen’s University, 1996) p.5.

<sup>29</sup> P. E. Bryden, “The Obligations of Federalism: Ontario and the Origins of Equalization” in *Framing Canadian Federalism: Historical Essays in Honour of John T. Saywell*, Dimitry Anastakis and P. E. Bryden, eds. (Toronto: University of Toronto Press, 2009) p. 76.

while paying attention to the broader political and economic forces that beset them. Social activists obviously played a pivotal role in these debates as they called for national social programs, especially after World War Two. But those activists rarely concentrated on the fundamental problem of unequal fiscal resources: Few advocated unconditional help for the poorer provinces. Equalization was an arcane art that was largely practised among political initiates.

Indeed, prior to the mid-1950s, few Canadians with power or influence accepted that equalization payments could be a valuable fiscal tool – if they were calculated to *balance* the needs of the “Have” and the “Have Not” provinces. Ottawa would only surrender control over its compensatory transfers when key provinces became increasingly reluctant to allow Ottawa to collect their three principal taxes; Quebec simply refused to cooperate after the war. Many provinces also refused to allow Ottawa to dictate unilaterally how they should spend any new federal transfers. Given the stalemate from wartime into the early 1950s, Ottawa could only introduce programs that it could run: Unemployment Insurance in 1940, Family Allowances in 1945 and expanded Old-Age Security in 1951.

Meanwhile, citizens were now demanding improved social security, emboldened by new programs in other developed nations such as Britain and Australia. It was apparent, however, that the poorer provinces could not afford social programs – which were their constitutional responsibility – without additional federal funds. Ottawa was caught in a trap between activist citizens who were growing impatient amid the postwar prosperity and resolute provincial governments who jealously guarded their constitutional rights.

In response, Ottawa backed away from the concept of a federation with an exceedingly strong central government: Instead, its equalization transfers to the poorer provinces would be unconditional. After years of bitter debates, equalization would become the key to social cohesion and political stability within the federation from its inception in 1957 to the present day.

This thesis will peer across those decades of political tug-of-war, examining how the federation evolved. I will briefly cover the early history of subsidies from Confederation, when politicians from the poorer provinces were already fighting for higher subsidies from Ottawa – and often winning. The drive toward equalization would gather steam in the decades after World War One as the voters pressed for more social services, provinces flexed their political muscles – and the hunt for models commenced. Throughout the 1920s into the mid-1930s, although Canada examined the Argentinian and American federations, it looked primarily to Australia for wisdom as that Dominion investigated inequalities among its states and devised ingenious remedies. In fact, Australia's Commonwealth Grants Commission, which the central government created in 1933 in response to Western Australia's vote to secede, would become a model for Canada's equalization program. In turn, during those decades, Canberra sought wisdom from Ottawa's efforts to tackle inequalities among provincial governments.

In 1937, as provincial defaults loomed, Prime Minister Mackenzie King appointed the pivotal Royal Commission on Dominion-Provincial Relations, which came to view fiscal inequality as a central federal problem. That Royal Commission – which I

will analyze from the viewpoint of its novel approach to inequality – was an advanced manual on federalism in the modern world. Although most politicians at the time dismissed its remedies for inequalities in the provision of services as impractical, its proposed National Adjustment Grants would eventually provide another model for equalization.

Most Canadians were slow to recognize the problem. As former senior federal public servant Ronald M. Burns, who was involved in the design of equalization, observed: “The need for positive interaction in overcoming abnormal regional differences in standards of public services and economic wealth has long been recognized by those intimately concerned in such matters. But the acceptance of this need was not general, and it was in the bringing of this need into the open that the [Royal] Commissioners made an important contribution.”<sup>30</sup> It is important to note that Burns wrote from the viewpoint of an Ottawa mandarin: he could not speak for the many politicians and bureaucrats in the wealthier provinces who remained dubious about the Royal Commission report.

Indeed, the initial reaction to the report was muted. It was tabled in wartime – as European governments toppled under the Nazi juggernaut. The exigencies of that war – along with the report’s radical proposals to centralize revenues in return for adjustment grants – derailed any immediate possibility of its adoption. The federation would shuffle along through war and the ensuing post-war boom, through the Cold War, and through two post-war renewals of the federal-provincial

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<sup>30</sup> Ronald M. Burns, “The Royal Commission on Dominion-Provincial Relations: The Report In Retrospect” in *Canadian Issues: Essays in Honour of Henry F. Angus*, ed. Robert M. Clark (Toronto: University of Toronto Press, 1961) p. 152.

tax rental agreements. Those deals would penalize provinces such as Quebec that would not allow Ottawa to collect their key taxes in exchange for grants. But the Royal Commission's idea of National Adjustment Grants that would allow poorer provinces "to provide normal Canadian services with no more than normal Canadian taxation" would remain an aspiration for many poorer governments.<sup>31</sup>

Meanwhile, social groups, poorer provinces and individual voters escalated their demands for modern federal social programs like those that existed in Great Britain and, to a lesser extent, in the United States. The contrast between Britain, which was a unitary state, and existing federations such as the United States, Canada and Australia was marked. In Britain, there was no need for too many nuances or messy negotiations with any provinces to institute social programs. Before World War I, British leaders instituted workers' compensation, old-age pensions, health insurance, and, most extraordinary of all, the world's first compulsory unemployment insurance program.<sup>32</sup>

In contrast, most federations had uneven records in their approach to nation-building through social programs. Progress was usually made where the central government was free to take action or where strong lobbies could combine their

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<sup>31</sup> Report Of The Royal Commission On Dominion-Provincial Relations, Book II. (Ottawa: Edmond Cloutier, Queen's Printer and Controller of Stationery, 1954) p. 272.

<sup>32</sup> Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States" in Peter R. Evans, Dietrich Rueschemeyer and Theda Skocpol, eds. *Bringing the State Back In* (New York: Cambridge University Press, 1985) 108.

lobbying efforts across classes.<sup>33</sup> In Australia, from the beginning, the Commonwealth had the constitutional right to legislate on behalf of the elderly and invalids. In June 1908, legislation was finally passed to implement that right: it provided for means-tested age and invalid pensions at flat rates financed from general revenue.<sup>34</sup>

In the United States, as Theda Skocpol has shown, the efforts of unified women's groups that crossed geographical and class boundaries ensured that America's first publicly funded social benefits – with the exception of military pensions and poor relief – were mothers' pensions. Forty states adopted such laws between 1911 and 1940 to enable communities to support newly widowed mothers so that they could care for their children at home.<sup>35</sup> But groups that could not marshal the necessary power-resources across social and cultural lines were largely out of luck amid the competing pressures within the American federation. Unbelievably, although more than half of the American elderly lacked enough income to be self-supporting in 1934, state pensions for the impoverished elderly were rare before 1930.<sup>36</sup>

In Canada, despite the Royal Commission's recommendations, the federal government was exceedingly slow to expand social programs because it was caught:

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<sup>33</sup> Gøsta Esping-Andersen, "The Three Political Economies of the Welfare State" in *Power Resources Theory and the Welfare State: A Critical Approach* (Toronto: University of Toronto Press, 1998) 145.

<sup>34</sup> History of Pensions and Other Benefits in Australia, Australian Department of Social Security:  
<http://www.abs.gov.au/ausstats/abs@.nsf/94713ad445ff1425ca25682000192af2/8e72c4526a94aaedca2569de00296978!OpenDocument>

<sup>35</sup> Skocpol, 16.

<sup>36</sup> U.S. Social Security Administration Historical Background and Development of Social Security: Official Social Security Website  
<https://www.ssa.gov/history/briefhistory3.html>

universal social benefits were impossible to implement amid the glaring inequalities in provincial revenues – and the provinces were responsible for social programs. Should Ottawa continue to treat each province relatively equally? Or should Ottawa bring provincial governments into a position of relative fiscal equality with each other? By the mid-1950s, there was a more pressing quandary: Could any remedy for provincial inequality resolve the increasingly heated disputes with Quebec over federal efforts to control tax revenues?

In 1940, the Royal Commission had pointed toward a partial solution for inequality through the equalization of key areas of provincial spending – and official Ottawa still remembered that proposal. This thesis will recognize the influence of specific politicians such as Louis St. Laurent on the creation of equalization – although it will avoid any assertion that such individuals determined the outcome.

It was significant, however, that Prime Minister St. Laurent had been the Francophone Counsel for the Royal Commission on Dominion-Provincial Relations. And the civil servant that St. Laurent worked with on equalization was John J. Deutsch, who had been the assistant research director and then research director for the Royal Commission. Throughout 1955 into 1956, St. Laurent and his cabinet evaluated proposed formulas for non-conditional transfers to the poorer provinces. Indeed, the Prime Minister – who formally introduced the concept of equalization grants in early 1956 – was much more involved in equalization than his senior bureaucrats have maintained. St. Laurent, however, would opt to tackle inequalities in the collection of revenues – as opposed to the Royal Commission's emphasis on inequalities in the spending on services.



The equalization formula – or the program itself – was never viewed as an enduring fix for the federation’s woes. The tensions between provincially-based linguistic and cultural rights and the push for expanded social rights did not disappear. Then, as now, the calculation of equalization payments required balance between provincial demands for sufficient funds to design and administer their own social programs and the pressure on Ottawa from social activists who called for expanded social programs, no matter which level of government delivered them. As well, any calculation had to balance the conflicting needs among the poorer and the wealthier provinces. The dramatic events from Confederation to Louis St. Laurent’s principled decision constitute the chronicle of Canada’s decision to save itself.

Historians and memoirists have pored over Canada’s pivotal mid-century decades, examining how the nation coped with the economic and social pressures of the 1930s while largely resisting the gospel of John Maynard Keynes, *and* how it survived the war to flourish in the peace with a slowly expanding social safety net.<sup>37</sup> But they have largely overlooked the problems of inequality among the “Have” provinces, which were wary of others’ dependency on their prosperity, and the “Have Not” provinces, which viewed Confederation as an economic blight that Ottawa had a moral obligation to remedy.

The federation structure is be useful but it has always been fragile. In recent decades, amid a more competitive world economy, the economic links across Canada have grown weaker as individual regions have increasingly integrated with

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<sup>37</sup> This thesis will survey them briefly later in the text.

adjacent American regions. As economist Paul Boothe notes: “Canada’s east-west orientation is being weakened. One of the implications is that the western and eastern parts of the country really have little connection – except through redistribution.”<sup>38</sup> Still, Canada’s strong cultural and linguistic forces have resisted those continental trends. And fiscal transfers have buttressed those unifying forces.

Prior to World War Two, however, Canada could look to few other federations to see how they handled economic inequalities among their member states. Australian political scientist R. J. May, who has compared federal systems in more than a dozen nations, has briefly traced the evolution of demands for more money from the poorer provinces since 1867 to the later decades of the twentieth century.

“Throughout most of the history of Canadian financial relations the basic conflict of interests has been between the smaller poor provinces and the larger richer provinces, and to a certain extent this conflict has been resolved, or at least stabilized, through financial adjustments,” May observes.<sup>39</sup> Crucially, he adds that Canada’s basic structure of one or two large, rich provinces and several small poorer provinces resembles the situation in Australia.

But equalization has never been a household word. Although Economists Thomas Courchene and Robin Boadway have scrupulously examined the evolution of equalization since its formal introduction in 1956, they have largely overlooked the political, social and economic factors that led to its development – including

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<sup>38</sup> Paul Boothe commentary in *Toolkits and Building Blocks: Constructing a New Canada*, eds. Richard Simeon and Mary Janigan (Toronto: C. D. Howe Institute, 1991) p. 21.

<sup>39</sup> R. J. May, *Federalism and Fiscal Adjustment* (Oxford, Great Britain: Oxford at the Clarendon Press, 1969) 84.

Canada's intensive study of Australia's experience in the 1920s and 1930s. Political scientists Richard Simeon and Ian Robinson have traced the evolution of fiscal arrangements among the Confederation partners. But they did not highlight the role of equalization as a pivotal factor in the development of key shared-cost social programs, the preservation of national unity and social cohesion, the maintenance of political stability, and the easing of provincial fears over federal power grabs and the centralization of revenues.<sup>40</sup>

Other political scientists such as Douglas M. Brown and David Milne have explored the roots of equalization in key aspects of the Royal Commission on Dominion-Provincial Relations – but they have not looked at the prelude and aftermath of the commission in detail. The authoritative Peter M. Leslie has also examined the Commission's proposed National Adjustment Grants, which he views as unworkable notions. But the history of equalization in Canada has been mainly neglected.

In effect, equalization has been a largely unrecognized nation-building scheme. Historians today may scoff at Canada's past preoccupation with the mechanics of federalism. Historian Christopher Dummit is almost bemused: "Sad, it is true, that in the midst of a national crisis of poverty and unemployment [in the 1930s], Mackenzie King's government opted to study federalism. But this is the essential Canadian question. Before we had the welfare state, before unemployment insurance and universal health care and universal old age pensions, we studied

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<sup>40</sup> I am not claiming that equalization worked a miracle of harmony – but it did diffuse provincial complaints about the centralization of revenues, removed a huge Quebec objection to Ottawa's strategies, and freed the poorer provinces from relative penury to participate in shared-cost programs.

federalism.”<sup>41</sup> But Canadian governments *had* to grapple with the rigid fixities of federalism’s division of rights and responsibilities before they could cope with the pressures for government action on social needs.

This thesis will expand on the limited historiography, concentrating on the evolution of the federation from tacit and grudging aid to the poorer provinces to the overt acceptance that Canada had to remedy fiscal inequality among its member states to survive. It fills a significant gap in Canadian history, pulling out the overlooked debates among Ottawa and the provinces over inequality. It will also deal peripherally with the social activists, who generally did not link the slow pace in the development of social programs with the glaring fiscal inequalities among governments.

That was a failure of imagination and analysis. Instead, I will concentrate on the politicians and bureaucrats who grasped the consequences of such inequalities and the need to remedy them. In effect, I am parsing the federal-provincial discussions that dealt with those fiscal imbalances – which is a state-centred approach. I will show, however, how those politicians and bureaucrats reacted to pressures from **policy-oriented groups** to expand social security – which forced them to address fiscal inequalities among the federation members.

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<sup>41</sup> Christopher Dummit, “Empire Man: A new look at the complicated life and work of Donald Creighton” in the *Literary Review of Canada*, Vol. 23, No. 7, September 2015, 7.

This thesis will also add to the historiography through its examination of Ottawa's search for models to remedy fiscal inequality within federal states across the decades. In particular, I will highlight many largely overlooked Canadian academic studies and bureaucratic reports on how other federations tackled these issues – and how Ottawa might proceed. It is a sparse field. Even David Fransen's superb unpublished thesis from 1984 – "Unscrewing the Unscrutable: The Rowell-Sirois Commission, the Ottawa bureaucracy, and Public Finance Reform, 1935-1941" – did not focus on inequality as an issue. Instead, Fransen concentrated on the push by key federal bureaucrats to secure greater control over Canadian tax revenues. As Fransen depicted those debates, any possible remedy for inequality would be a by-product of greater federal control over key revenue sources.<sup>42</sup>

In particular, this thesis will break new ground as it unveils the extraordinary influence of Australia on the Canadian debates over fiscal probity and inequality, especially throughout the late 1920s and the 1930s. Canadian and Australian Royal Commissions cited each other, seeking wisdom. Australian innovations such as loan councils fascinated their Canadian counterparts. And the Australian remedy for inequality among the states would become a model for Canada's approach – although there would be a crucially important difference in the formula. My state-centred approach will trace those international interactions during each nation's search for remedies for fiscal inequality among their members. Ottawa also interacted with experts from such nations as the United States and Argentina.

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<sup>42</sup> David Fransen, "Unscrewing the Unscrutable:" *The Rowell-Sirois Commission, The Ottawa Bureaucracy, and Public Finance Reform 1935-1941*, unpublished thesis, Department of History, University of Toronto, 1984.

The Canadian Constitution was drafted in the mid-19<sup>th</sup> century when the state's social obligations to its citizens were limited – and there was little thought of expansion of those responsibilities. Under the British North America Act of 1867, the provinces assumed responsibility for property and civil rights, public lands, education and hospitals. They could raise funds through direct taxation “within the Province...for Provincial Purposes.”<sup>43</sup> (Sales taxes have subsequently been deemed to be direct taxes.) In turn, Ottawa handled the regulation of trade and commerce, the military, foreign policy, the currency and “Indians, and Lands reserved for the Indians.”<sup>44</sup> The federal government could raise money “by any Mode or System of Taxation.”<sup>45</sup> Almost from the start, of course, the categories have overlapped and occasionally conflicted.

Indeed, clashes have been inevitable. As political scientist R. J. May awkwardly but astutely observes about the political process in federal systems: “The greater is the concentration of particular interests – racial, linguistic, religious and so on – within particular unit boundaries the greater is likely to be the conflict of interests on all matters of federal policy and the greater the tendency for provinces representative of minority interests to resist national policies dominated by the interests of provinces not representative of these interests.” He adds that Quebec

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<sup>43</sup> The Constitution Act 1867, clause 92, subsection 2.

<sup>44</sup> The Constitution Act 1867, clause 91, subsection 24.

<sup>45</sup> The Constitution Act 1867, clause 91, subsection 3.

“has been responsible for substantial changes in the pattern of intergovernmental financial relations.”<sup>46</sup>

Equalization is one of the few methods that federations can deploy to ameliorate huge inequalities in the provision of provincial services. With greater fiscal equality, the federal partners can develop a cross-country social safety net without threatening provincial identities – or national unity. Canadians are effectively guaranteed relatively equal services in health, education and welfare – no matter where they live. They do not have to move to another province to receive those benefits: their provincial government can afford to provide them. Everyone benefits: taxpayers in the wealthier provinces do not have to provide services to the new arrivals from the poorer provinces; governments in the poorer provinces do not lose tax revenues when their citizens move in search of better benefits.

Most modern federations, with the unusual exception of the United States, now operate some form of this mechanism: the transfer of largely unconditional grants among governments to create approximate per-capita fiscal equality. During the post-war years, however, powerful civil servants in Ottawa could see few objections to the continued centralization of key provincial revenues through renewed tax-rental deals. They tended to underestimate the strength of the provincial-rights views within their federation.

Historian J. L. Granatstein has referred to this group as “The Ottawa Men,” noting that their coterie was “exclusively male... Nor was there a single French-Canadian

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<sup>46</sup> May, 84.

member of the mandarin group.”<sup>47</sup> Actually there were several high-ranking women and Francophones among that group.<sup>48</sup> But his characterization is *pivotal* in terms of the creation of equalization. Such civil servants were insensitive to the unwritten bargain of the federation between francophone and anglophone Canadians. And there were few powerful politicians – with the notable exception of Prime Minister Mackenzie King – to remind them that their efforts to centralize revenues and responsibilities could endanger national unity. Even then, King initially went along with their plans to centralize revenues on a temporary basis in 1941 because Ottawa needed the money to fight the war. He also allowed the second round of

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<sup>47</sup> J. L. Granatstein, *The Ottawa Men: The Civil Service Mandarins 1935-1957*. (Toronto: Oxford University Press, 1983) p. 4.

<sup>48</sup> The report of the Royal Commission on Bilingualism and Biculturalism lamented the reduced number of senior francophone bureaucrats after the introduction of the Civil Service Act of 1918: overall, francophone participation declined to 13 per cent in 1946 from 22 per cent in 1918. But the report also singled out the efforts of such champions as Under-Secretary of State O. D. Skelton and Justice Minister Ernest Lapointe to promote francophone bureaucrats from the mid-1930s into the 1940s. The report offers a good summary of those decades. *Report of the Royal Commission on Bilingualism and Biculturalism*, 1967, Book III, pps. 100-110.

[http://publications.gc.ca/collections/collection\\_2014/bcp-pco/Z1-1963-1-5-3A-1-eng.pdf](http://publications.gc.ca/collections/collection_2014/bcp-pco/Z1-1963-1-5-3A-1-eng.pdf)

As for women, Jennifer Stephen’s *Pick One Intelligent Girl: Employability, Domesticity and the Gendering of Canada’s Welfare State, 1939-1947* chronicles the efforts of senior female bureaucrats to bring other women into the work force during World War Two. (Toronto: University of Toronto Press, 2007.) But the numbers were not huge. As the Report of the Royal Commission on the Status of Women in Canada noted in 1970, the paucity of women in the public service ensured that “some half of the population contributes almost nothing to economic and social policy making in Canada.” *Report of the Royal Commission on the Status of Women in Canada*, 1970, chapter 7, p. 342.

[http://publications.gc.ca/collections/collection\\_2014/priv/CP32-96-1970-3-eng.pdf](http://publications.gc.ca/collections/collection_2014/priv/CP32-96-1970-3-eng.pdf)



rental deals to proceed, content to keep a firm hand on fiscal control during the uncertainties of reconstruction.

In the post-war era, when key provinces resisted continued tax-rental deals, those bureaucrats were in a continuing quandary. During the first renewal in 1947, Quebec and Ontario were isolated. Then only Quebec resisted the 1952 tax rental pacts. With each round of negotiations to forge five-year deals, the other provinces became more demanding in their requests for compensatory grants. The system could not hold.

But it was not until 1956 that Ottawa finally surrendered control for the sake of both social cohesion and national unity – and opted for formal equalization. The post-war prosperity had finally provided sufficient revenues for sharing unconditional federal funds with the poorer provinces. The First Ministers accepted that something had to give: Quebec was isolated while an expanded social safety net was long overdue. Federal bureaucrats and politicians belatedly espoused the Federal-Provincial Tax Sharing Arrangements Act, which effectively ended Ottawa's efforts to control the main provincial tax revenues. (The tax-rental deals, however, would continue with many provinces for another five years.)

That tax-sharing act provided for equalization payments – which began in the 1957-1958 fiscal year. Those transfers ensured that all provinces could provide roughly similar services for roughly similar levels of taxation. The way was then open for shared-cost programs such as hospital care and Medicare that even the poorer provinces could now afford – almost. The equalization principle – which

distributed almost \$18.3-billion from Ottawa to the poorer provinces in 2017-2018 – was even entrenched in the Canadian Constitution in 1982.

Debates about equalization often focused on a pivotal dilemma that lingers over the equalization program to this day: How could governments – along with millions of Canadians – draw the line between the fear of encouraging dependency and the moral obligation to share with strangers? I will argue that those two extremes only dominate the discussions about equalizing payments when the transfers are not balanced: If the grants are too large – or if the grants are out of sync with sudden economic downturns – then fear of dependency overshadows pragmatic generosity. If they are too small, the poorer provinces threaten social cohesion with a plaintive moral appeal for greater generosity. Deployed properly, equalization payments are simply an essential fiscal tool that balances potentially dangerous competing fiscal requirements within the federation – in the long-term economic and social interest of *every* Canadian.

Dependency is a loaded word. Philosopher Nancy Fraser and historian Linda Gordon have parsed the evolution of its meaning across the centuries in *A Genealogy of Dependency: Tracing A Keyword of the U.S. Welfare State*?<sup>49</sup> The word has been used – and abused – across the decades during “the struggle to define social reality and to interpret people’s inchoate aspirations and needs.”<sup>50</sup> In Fraser and Gordon’s analysis, it was applied to “poor women with children...who rely for economic

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<sup>49</sup> Nancy Fraser and Linda Gordon, “A Genealogy of Dependency: Tracing a Keyword in the U.S. Welfare State” in *Signs*, Vol. 19, No. 2 (Winter, 1994).

<sup>50</sup> Nancy Fraser and Linda Gordon, p. 310.

support” on the American government program, Aid to Families with Dependent Children.<sup>51</sup>

But the word “dependency” has resonance for governments as well as people. As I will show, Canada’s richer provinces have depicted their poorer kin as unnecessarily dependent on federal loans and grants including equalization payments. Poorer provinces have resisted that label, arguing that inferior social and educational programs would produce citizens who were unprepared to participate in the economy: their residents should not have to move to another province to secure a better education, better health care or a minimal base of support in times of need. Surely the wealthier provinces want to see the poorer provinces pulling their economic and social weight?

Such responses capture an inherently pragmatic approach to accusations of dependency – and I will cite them as they occurred throughout the decades of the mid-twentieth century. The danger, of course, was that the recipient provinces would come to view equalization transfers as an entitlement – even when they no longer qualified for them under the formula.

But a more idealistic principle of sharing underlay the hardheaded fiscal bargain of equalization – even though few governments would openly espouse it. In effect, richer provincial governments on behalf of their taxpayers tacitly agreed to allow Ottawa to share their taxpayers’ dollars across provincial boundaries. The Depression had fostered those two attitudes of the moral need to share and the fear

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<sup>51</sup> Nancy Fraser and Linda Gordon, 311.

of dependency toward poorer citizens and poorer governments, and it was not uncommon for voters to sway between the two extremes.

It was a response that their politicians both reflected *and* nurtured. As the definition of basic social needs expanded over the decades of the mid-twentieth century, I will show how the notion of “sharing” as a moral duty moderated that concern about “dependency.” The challenge across the decades was to find *balance* in the size of equalization transfers for revenue needs – if only because there are always practical limits to generosity within a political system.

Politicians gradually accepted the need for equalization to address inequalities among provinces as their citizenry recognized – and, indeed, encouraged – the State’s growing responsibility for social programs. Political philosopher Michael Ignatieff has pondered the precarious balance between political and social *rights* versus *needs* in Canadian society. And he has traced the struggle to treat needs for food, shelter, clothing, education and employment as social rights of citizenship. “The conservative counter-attack on the welfare state,” he observes, “is above all an attack on the idea that these needs make rights; an attack on this idea puts into question the very notion of a society as a moral community.”<sup>52</sup>

In turn, among the federal partners, the *needs* of poorer provinces have become constitutional *rights*. But that right to an unspecified level of equalization varies across time and space as provincial populations and prosperity change as well as the formula itself. No one should remain oblivious to the flaws in Canada’s approach: even the definition of revenue needs, let alone fiscal rights, remains controversial.

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<sup>52</sup> Michael Ignatieff, *The Needs of Strangers* (New York: Picador edition, 2001, first published in 1984) 13.

The formula has always been a deeply politicized construct, crafted and re-crafted over the decades to allay political conflict. Provinces tailor their policies to maximize their benefits. Obfuscation is an art: There are now hundreds of different calculations to determine the provinces' annual level of support. What began in 1957 as a modest transfer program based upon the average per-capita collection of three taxes in two provinces is now a behemoth. But, however politicized it was, and is, the program is a vital nation-building instrument in a difficult federation.

The historical debates over equalization were focused on clashes of identities. On the one hand, as Simeon and Robinson observe, there were the provinces, which represented the traditional provincial identities of language and culture *despite* their diverse views on the State's duties to its citizens. Such identities worked "to entrench and reinforce the strength of provincial identities, and to undermine and weaken other bases of identity."<sup>53</sup> Tugging against those identities were class and gender-based groups, such as trade unions and women's organizations, which were increasingly demanding that Ottawa expand its social safety net, including health care, educational funding, social assistance and pensions. Such programs represent the foundation of what British sociologist T. H. Marshall has labeled "social citizenship."<sup>54</sup>

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<sup>53</sup> Simeon and Robinson, 16.

<sup>54</sup> T. H. Marshall, "Citizenship and Social Class" in *Inequality and Society*, eds. Jeff Manza and Michael Sauder (New York: W.W. Norton and Co., 2009) 148-154. Marshall first published his essay in 1950. See also Thomas H. Marshall, "Citizenship and Social Class" in *Class, Citizenship, and Social Development* (Westport, Conn: Greenwood Press, 1973) as quoted in Leslie, National Citizenship and Provincial Communities. p. 10.

After World War Two, those society-centred identities would grow stronger as groups increasingly echoed each other's call for social programs – even if they did not explicitly cooperate. But – *and this is pivotal* – there were no concerted calls from those groups during the 1930s, 1940s or 1950s for a specific program of non-conditional financial assistance such as equalization when provincial revenues did not match provincial responsibilities. There was no organized lobby for anything more than ad hoc assistance and special subsidies for specific social causes from Ottawa. Equalization emerged over the decades from an inner circle of political and bureaucratic elites in Ottawa and key provinces. They, in turn, consulted Canadian academics and, crucially, experts on federalism in other federations.

That inner circle of politicians, bureaucrats, academics and international experts that pushed for equalization comprised a select group. While disparate advocates pushed for expanded social programs, only a handful of provincial premiers such as Nova Scotia's Angus L. Macdonald and, later, Saskatchewan Premier T. C. Douglas and social scientists such as University of Toronto sociologist Harry Cassidy understood the link between equalization and improved public services.

(Astonishingly, however, as I will show, Douglas wanted to penalize Quebec financially in the mid-1950s if it did not sign a tax-rental deal with Ottawa.)

The members of historian Doug Owram's *Government Generation* also consulted respected international experts such as Swedish political economist Gunnar Myrdall, U. S. Treasury Under-Secretary Roswell Magill, and the key Australian player behind the Commonwealth Grants Commission formula, L. F. Giblin. (Sweden was a unitary state – but the Royal Commission on Dominion-Provincial relations wanted to

explore how its different levels of government inter-related.) That Canadian inner circle had to figure out how to remake the federation to save it.

But equalization did not develop within a vacuum: throughout the middle decades of the century, there were multiple pressures to expand the social safety net. From the 1930s into the 1960s, Ottawa and the provinces, particularly Quebec, competed for public support through conflicting appeals to social identities and provincial identities. Over time, those stances were adjusted as voter attitudes evolved: that is, all governments moderated their positions on transfers and social security to win the approval of their citizenry. To do otherwise would have endangered political stability – and the elites’ political careers.

Where necessary when I concentrate on specific governments, I will also deploy the approach to “The State” that Philip Abrams has proposed: The state “is itself the mask which prevents our seeing political practice as it is...[It is] a palpable nexus of practice and institutional structure...The state comes into being as a structuration within political practice.”<sup>55</sup> In other words, I will look behind the formal description of the state to how each government confronted day-to-day life. Behind the mask of the state from the late-1920s to the adoption of equalization, there were federal governments that were centrist and avowedly capitalist grappling with provincial governments that ranged from the deep social conservatism of Quebec to the social democratic approach of Saskatchewan and the radical fundamentalism of Social Credit in Alberta. Admittedly, the range of differences was *relatively* small: the leaders and their governments espoused their practices within a democratic federal

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<sup>55</sup> Philip Abrams, “Notes on the Difficulty of Studying the State” in *Journal of Historical Sociology*, Vol. 1, No. 1, March 1988. 82.

polity and a capitalist economy. But such different philosophies were disruptive. As I will show in later chapters, equalization could not commence until Ottawa could edge those disparate views toward a compromise.

Equalization grants were an essential component in the expansion of the social safety net. Today, all provinces can provide good health care and education for their citizens – if they choose to do so. They can look after the jobless who have exhausted their Unemployment Insurance with social assistance payments that are at least minimally adequate (and also partially federally funded.) Equalization payments have set a national standard for the amount of per-capita revenue that each province needs to survive with grace and relative equality. Those transfer payments have bound Canadians together in a pragmatic web of financial ties that is far removed from the resounding patriotic ideal that many wistfully espoused. But those practical ties have funded a common social citizenship that has become the foundation of the modern nation.

In 1965, in his seminal *Lament for a Nation: The Defeat of Canadian Nationalism*, philosopher George Grant understandably missed what few recognized or understood then. He saw English-speaking conservatism as loyalty to the nation based on the flow of trade – and that was “destined to change when that flow changed” from Great Britain and its Dominions to the United States.<sup>56</sup> He saw

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<sup>56</sup> George Grant, *Lament for a Nation: The Defeat of Canadian Nationalism*. (Toronto: McClelland and Stewart Limited, 1965) 69.



French-Canadian nationalism as “a last-ditch stand” against the powerful assimilating forces of American corporations.<sup>57</sup>

He caught the zeitgeist, the fear that Anglophone and Francophone Canada were disappearing into the American orbit. But he missed the fiscal ties that provided revenues so that all governments could create a strong network of social programs. Equalization allowed all governments to provide relatively equal services for relatively equal levels of taxation. In turn, equalization is “part of the broader set of federal-provincial fiscal arrangements and is not set in a vacuum.”<sup>58</sup> That network – along with the persistently strong cultural identities of the provinces – would eventually trump those economic forces that Grant lamented.

That does not mean that redistributing revenues among governments has been easy. The senior civil servants of the 1930s and 1940s would likely be confounded to see the federation’s alternative to their drive for a strong, almost overpowering central government that collected huge pools of cash. In the 1930s, few senior federal bureaucrats or politicians were converts to the theories of British economist John Maynard Keynes, who advocated government spending during downturns – even if that spending created deeper deficits. Although some junior bureaucrats espoused the Keynesian approach during the 1930s, they had little power. As well, no one knew if such approaches would work in a federal state – and they were hesitant to embrace them. In the end, provincial resistance to Ottawa’s continuing

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<sup>57</sup> George Grant, *Lament for a Nation: The Defeat of Canadian Nationalism*. p.76.

<sup>58</sup> Robin Boadway, “Fiscal equalization: the Canadian experience” in *Fiscal Federalism and Political Decentralization: Lessons from Spain, Germany and Canada*. Bosch, Núria and José M. Durán, eds. Cheltenham, U. K. : Edward Elgar Publishing Limited, 2008. p. 134.

bid to centralize revenues would thwart such half-hearted and temporary initiatives. But the fiscal ties of transfers between Ottawa and the provinces have remained strong.

I will trace the history of Ottawa's adoption and refinement of equalization from the 1920s to 1957 in five chapters that will rely primarily on documents from the Bank of Canada Archives, the National Archives of Australia, the Tasmanian Parliamentary Library, the Nova Scotia Archives, and Library and Archives Canada as well as archives at the Canadian Tax Foundation, Queen's University, the Australian War Memorial in Canberra, the Bank of Nova Scotia and the University of Manitoba. (Obviously, I also consulted secondary sources.)

**Chapter one** will set the stage for equalization by tracing the early fights between Ottawa and the provinces over subsidy levels across the decades from Confederation into the mid-1930s.

**Chapter two** will open in 1935 as Prime Minister Mackenzie King recaptured power – and promptly called a Dominion-Provincial Conference, which encapsulated the huge differences among governments over how to handle fiscal inequality among the provinces. When the First Ministers could not agree on solutions, bureaucrats and politicians pushed for a Royal Commission to examine the federation's imbalances in revenues and responsibilities. King reluctantly agreed. Politicians could no longer view fiscal inequality as business as usual.

**Chapter three** will examine the ensuing hearings of the Royal Commission on Dominion-Provincial Relations, which captured Canada on the cusp of the changing

role of the state in its citizens' lives. The hearings became a superb illustration of the different provincial views on the federation, dramatizing the federation's inability to handle the social and economic inequalities among its governments – and its citizens.

**Chapter four** will examine the fate of that seminal Royal Commission report, concentrating on how it addressed inequality. It was simply too centralizing for wealthier provinces, including Ontario, to accept and it would have required formal constitutional change. It also challenged Quebec's linguistic and cultural rights: the province relied on key tax revenues such as succession duties to preserve its language and culture.

Uneasily aware of those tensions, the deeply cautious King would never formally attempt to take over the provinces' income taxes and inheritance taxes. The report failed. And any push toward permanent fiscal centralization would fail *every step of the way for the next decade*, including discussions at two First Ministers' Conferences. Instead, all provinces reluctantly agreed to surrender key tax revenues *temporarily* in return for per-capita payments.

**Chapter five** will examine federal-provincial relations in the wake of the failed 1945-1946 conference – as King's proposal for a social security network was shelved. Meanwhile, policy-oriented groups in many provinces grew stronger – and confronted the traditional political guardians of provincial rights. By the early 1950s, Prime Minister Louis St. Laurent and Quebec Premier Maurice Duplessis were engaged in a dramatic quarrel over provincial tax revenues – which Quebec would not allow Ottawa to collect. In the Rest of Canada, key Premiers from the

poorer provinces were pushing for some form of equalizing funding – despite the objections of Premiers from the richer provinces. Political stability was strained. Equalization became the only sensible solution to the impasse over fiscal inequality among the provinces. Once equalization was achieved, Ottawa and the provinces then introduced a range of social programs.

**The conclusion** will review the process of nation-building over the decades. Two forces contrived to create equalization: The push for expanded social security from the advocates of social citizenship and the increasing resentment in Quebec over Ottawa's efforts to centralize revenues. When the dispute between Quebec and Ottawa escalated dangerously, Ottawa had to back away from its plans to centralize revenues – because that approach penalized Quebec financially.

But it also had to deal with the voices of society-centred groups, which now matched – indeed, outweighed in most provinces – the voices of fierce provincial identities. Ottawa had to act. Equalization established relative fiscal equality among the provinces to preserve social cohesion and political stability. It was a state-centred solution that balanced provincially-based rights and the demands of social policy groups.

Equalization was – and remains – a necessary fiscal tool that must be used with calculated care might not buy love, but it has enabled the creation of good health care, reputable post-secondary institutions and an expanded welfare system. Equalization saved the Canadian nation. And that was a remarkable legacy from the generation that came home from World War Two to make a better world.

## CHAPTER ONE: The Poorer Provinces Stake Their Claims 1867-1935

Inequality has *always* been a troublesome issue within the Canadian federation. The risk of fiscal disparities even disrupted the debates among the colonies on the brink of Confederation in 1867. The smaller ones – New Brunswick and especially Nova Scotia – were convinced that union with the larger and more populous Province of Canada would upset their trade and shrink their revenues. Although the British paid little attention to such Maritime lobbying, the Canadian negotiators could not be so dismissive. They handled inequality with subtlety, cunningly allotting unusually large grants for government operations to the poorer provinces. It was the start of covert solutions for inequality: Federal subsidies still *appeared* relatively equal for all provinces. Such ingenious remedies could not last.

Over the next seven decades, *all* provinces would demand larger subsidies from Ottawa to meet their growing social and economic responsibilities. But the Maritimes would become especially vehement in the years after World War One as transportation costs escalated, corroding the underpinnings of its economy, while its political clout waned. By the mid-1920s, the Maritime Rights movement – “a spontaneous expression of the economic and social frustrations of the Maritime people” – forced Ottawa to create a Royal Commission into the region’s plight.<sup>1</sup> That commission report, in turn, would become one of the pivotal beginners’ manuals on fiscal federalism for both Canada and Australia. During the mid-1920s into the

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<sup>1</sup> Ernest R. Forbes, *Maritime Rights: The Maritime Rights Movement, 1919-1927: A study in Canadian Regionalism*. (Montreal: McGill-Queen’s University Press, 1979) p. viii.

1930s, both Dominions researched fiscal inequalities among the member states in their federations – and both consulted each other on their progress. The synergy was startling – and it has been largely unexplored.

By the mid-1930s, amid the Depression, the federation was under siege. The Prairie Provinces were desperate for funds – and Ottawa resorted to ad hoc loans and grants to keep them afloat. Meanwhile, two additional Royal Commissions looked at the Maritime plight: one examined Nova Scotia; the other scrutinized all three Atlantic Provinces. By 1935, as even the wealthier provinces of Ontario and Quebec scrambled to take care of their citizenry, Prime Minister R. B. Bennett promised to reform capitalism while extending more ad hoc loans and grants to the West. But there were no permanent remedies for this ongoing, seemingly insoluble dilemma of inequality among the member provinces. After nearly seven decades of turmoil and protest, the federation was no closer to a solution for sharing in 1935 than it had been in 1867.

### **The Maritime Plight**

Nova Scotia was always wary of the idea of Confederation. There had to be winners and losers in this new-fangled form of government, where provinces and the central government divvied up their revenues and their responsibilities. And that fiery journalist and politician, Joseph Howe, was convinced that Nova Scotia would be a loser. His province needed better communication links with its fellow British provinces in Central Canada, including an inter-colonial railway, before it could even contemplate union with such an alien entity. In 1866, he could see few

ties that bound the disparate provinces together. He even wrote an intemperate pamphlet to warn the British about the perils of the union: the Maritimes were deeply devoted to the Mother Country – and looked outward to the sea for their commerce and trade; the Province of Canada was divided by “the antagonism of races arbitrarily bound together, shaken by incompatibility of temper.”<sup>2</sup>

It would take more than a mere act of the British Parliament, the Halifax-born Howe argued, to unite the four provinces into a nation. Such hasty legislation was a disastrous approach to nation building, and it was doomed to fail. The former colonial Premier was so opposed to the compromises and inequalities of federation that he campaigned against the bill for ten months in Great Britain. His predictions in his 37-page pamphlet denouncing Confederation were dire. If Nova Scotia and New Brunswick were forced into a federal union with the central government of Ontario and Quebec through “an arbitrary act of Parliament,” Maritimers would be stranded in a nation where they were outnumbered. Their political clout would be insignificant. The more populous provinces would always put aside their difference to combine so that “the centre of power and of influence will always be in [the Province of] Canada.”<sup>3</sup>

Worse, federation would mean the ruin of the Maritime economy. Maritimers applied only light duties to British manufactured products – and they were anxious to foster trade relations within the Empire and with other foreign nations. In contrast, Canada imposed high duties on goods – and it would certainly expand

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<sup>2</sup> The Hon. Joseph Howe, *Confederation In Relation To The Interests Of The Empire*, (London: Edward Stanford, 1866) 6.

<sup>3</sup> Howe, 35.

those tariffs with Confederation. That would leave Maritimers in dire straits: their resource products such as lumber and fish could not reach the interior of Canada over frozen waterways for six months of the year.<sup>4</sup> And they would be forced to buy Central Canadian manufactured products. To every British politician that Howe could buttonhole between July 1866 and May 1867, he offered a terrible warning. "The wisdom of Solomon and the energy and strategy of Frederick the Great would seem to be required to preserve and strengthen such a people, if formed...into 'a new Nationality.'"<sup>5</sup>

Howe could not win. He would turn out to be right, of course, but it would be almost a century before the semi-satisfactory solution of equalization would materialize. In the 1860s, his grim anti-Confederation denunciations threatened social cohesion and political stability in the incipient nation. His Confederation partners anxiously ensured that Nova Scotia and New Brunswick secured federal precedents for special treatment for the poorer provinces that would preoccupy Dominion Governments into the 1950s. And beyond.

Perhaps more important, as other territories and provinces joined Canada, they would echo the Maritime lament, elbowing each other aside with pleas of poverty and demands for financial remedies. As their populations grew, they could barely fulfill their existing social and economic responsibilities. They did not contemplate permanent formal solutions for inequality, nor did they dream of expanding their current social duties such as the construction of new schools.

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<sup>4</sup> Howe, 21.

<sup>5</sup> Howe, 10.



Their complaints escalated. Two decades after federation, provincial inequality was already a reliable theme in the discourse of the poorer provinces. But it was only in the decades after World War One that the poorer provinces would double down their demands for more federal cash – because they could not afford the programs such as the Old-Age Pension that the richer provinces and Ottawa espoused. More responsibilities would always breed more discontent.

It was Howe's political heirs who would provide much of the impetus for the renewed post-World War One provincial campaigns for higher subsidies. The Maritimers would argue that Confederation had damaged their economic prospects. They would demand, and often secure, more money for their governments, brandishing amorphous claims of fiscal need and the disabilities that federation had foisted upon them. They would come to view those subsidies as a moral right – and as virtually intrinsic to their identities. Ottawa would eventually discover that more funds could make the claimants go away, but only temporarily. The poorer provinces would seemingly always be with the federation.

Along the way, the Maritimes would also become key players in the post-World War One bond between Canada and Australia. The two nations would learn from each other's approach to everything from loan councils to grants to the poorer states to remedy fiscal inequality on a case-by-case basis. And both nations would rely heavily on investigations into the Maritime's economic plight and into the poorer Australian states' plights. They would then figure out how to compensate for those inequalities. How much had higher tariffs affected Nova Scotia – and should that matter? How could central governments measure the results of a poor

provincial hand in the game of nationhood? Should central governments even aim for relative fiscal equality among the member states to preserve and build the nation when the provinces (and the Australian states) were so disparate? Could the glaring fiscal inequalities among the provinces endanger the social cohesion and political stability of the federation itself?

In the end, those difficult questions would lead to an overhaul of the entire subsidy system. For ninety years, Ottawa and the richer provinces would cling to the mantra of provincial equality. For ninety years, the successors of Joseph Howe would contest that assertion with the argument that their unequal fiscal situation made a mockery of formal provincial equality. They demanded – and often got – more federal money than their richer kin received. In 1957, Ottawa would formally recognize that inequality. Equalization payments based on the provincial ability to raise revenues would replace those subsidies with a formula for transfers to the poorer provinces. Specific federal transfers for programs such as health care would follow.

Joseph Howe was not one of the Fathers of Confederation. But he was one of the founders of equalization. That is an accolade that he would likely view with very mixed sentiments – since he regarded Nova Scotia as a proud trading colony as opposed to its identity as a Canadian province facing continuing fiscal adversity.

### **The Maritimers At Home and In London in the 1860s**

Wisdom was seemingly always in short supply in British North America. In the 1860s, as the creators of the world's third modern federation, the Confederation

partners had to grope their way through the foreseen – and *unforeseen* – complaints about union. The future Maritime Provinces fell back on the ploy of demanding more funds.

Then, as now, money mattered. Indeed, financial concerns were one of the key factors behind Confederation. The notion of federation suited Central Canada. The Canadian Union was deadlocked, burdened with debts, and dangerously divided by cultural and linguistic differences. Confederation was a “thoroughly practical” solution to those woes.<sup>6</sup> The British agreed.

In contrast, many politicians from Atlantic Canada were concerned about their provincial government’s fiscal health in a federation that the Province of Canada would dominate. How could they fulfill their responsibilities within a federation that would take over the collection of their vital customs duties? In particular, how would they cope if Ontario and Quebec burdened them with taxation to pay Canada’s large debts for railroads? From the start, fiscal inequality among the provinces would be a motif of the federation. While the British pushed for Confederation, the Maritime Provinces resisted it.

The representatives from the Atlantic colonies at the Quebec Conference in October 1864 clearly grasped their plight. Weeks after those discussions, Nova Scotia Premier Charles Tupper warned Canadian Finance Minister Alexander Galt that he had ably presented the goal of Confederation “altho’ a little too much from

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<sup>6</sup> P. B. Waite, *The Life and Times of Confederation, 1864-1867: Politics, Newspapers, and the Union of British North America*. (Toronto: University of Toronto Press, 1962) p. 49.

the Canadian point of view.”<sup>7</sup> Newfoundland Liberal Party leader Ambrose Shea, who was a delegate to that conference, later told Galt: “Some of our mercantile men fear a large amount of increased taxation.... this is a point on which it is easy to alarm the masses everywhere.”<sup>8</sup> Shea would prove prescient: Newfoundland would not join the federation until 1949.

Prince Edward Island Liberal assemblyman and conference delegate Edward Whelan, who favoured union, was equally cautious with Galt: “You treat the question too much from a Canadian point of view...and the asses of country people [in Prince Edward Island]...are afraid they are going to be tremendously taxed.”<sup>9</sup> He was right: When PEI could not secure sufficient compensation for its lack of Crown resources, it resisted Confederation. In 1873, saddled with massive debts from railroad construction, the government would go back to Ottawa to make a better deal that included cash to buy out absentee landlords.

In New Brunswick, the newspapers accepted the need for a commercial connection with Canada, but some were dubious about a political and fiscal bond. As the *New Brunswick Courier* explained: “The financial part of the project has received the most attention.”<sup>10</sup> In speeches after the Quebec conference, New Brunswick

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<sup>7</sup> Nova Scotia Premier Charles Tupper to Finance Minister Alexander Galt, December 13, 1864, as quoted in “Letters To Galt Concerning The Maritime Provinces And Confederation” in *Canadian Historical Review*, Volume XXXIV, no. 2, June 1953, p. 166.

<sup>8</sup> Newfoundland Liberal Party Leader Ambrose Shea to federal Finance Minister Galt, December 15, 1864, “Letters To Galt.” p. 167.

<sup>9</sup> Liberal Assemblyman Edward Whelan to Finance Minister Alexander Galt, December 17, 1864, “Letters To Galt.” p. 168.

<sup>10</sup> As quoted in P. B. Waite, *The Life and Times of Confederation, 1864-1867: Politics, Newspapers, and the Union of British North America* (Toronto: University of Toronto Press, 1962) p. 240.

Premier Samuel Leonard Tilley's "main purpose was to satisfy his audiences that Confederation would not increase their taxation."<sup>11</sup> It was a tough chore.

Fiscal inequality among member states remains the plague of any federation. Howe surely knew that Confederation was unstoppable when influential British railroad financiers swung behind its promise of "the political stability and the economic security without which existing enterprises must remain in jeopardy and future developments [must] be limited and uncertain."<sup>12</sup> Pinned under Central Canada's weight, tugged into projects that would often benefit other regions, Atlantic Canadians would continue to complain about fiscal inequality across the decades. As historian Christopher Moore notes, the Confederation bargain did give "blunt evidence" of federal primacy:

Although the Maritime provinces had substantial net assets and the Canadas substantial liabilities, Galt's [fiscal] resolution transferred to the federal government most of the assets and liabilities of the old provinces. The federal government would also acquire control of customs duties and tariffs, though the sea-trading Maritimes needed low tariffs much more than the revenue-hungry Canadas did.<sup>13</sup>

The Central Canadian Provinces were (temporarily) satisfied with their fiscal deal. Ontario Reformer Oliver Mowat, who would become Premier in 1872 and Sir John A.'s nemesis, secured resource revenues – and the ability to levy direct taxes, which might then be applied to property. Mowat was initially viewed as "no great threat" to Ottawa's centralizing drive – but his fiscal cunning showed remarkable

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<sup>11</sup> P. B. Waite, p. 240.

<sup>12</sup> R. G. Trotter, "British Finance and Confederation" in the *Report of the Annual Meeting of the Canadian Historical Association*, Vol. 6, number 1 (1927), p. 96.

<sup>13</sup> Christopher Moore, *1867: How the Fathers Made a Deal* (Toronto: McClelland & Stewart Inc., 1997) p. 128.

foresight.<sup>14</sup> Quebec, in turn, welcomed those resource revenues from lands, mines and minerals. But its primary goals were linguistic and cultural preservation, which it secured through its control over education, civil and religious institutions. As historian A. I. Silver notes: “Quebec was to be the French-Canadian country, working together with the others on common projects, but always autonomous in the promotion and embodiment of the French-Canadian nationality.”<sup>15</sup>

Such bargains left Atlantic Canadians struggling for the assurance that their provincial legislatures would have the resources to fulfill their responsibilities such as hospital construction and transportation infrastructure. They had one advantage: Federation negotiators were uneasily aware of the potency of Joseph Howe’s financial warnings. In the end, they provided extra compensation for the recalcitrant Maritimes as an inducement to bring the nation into being: Nova Scotia Premier Charles Tupper and New Brunswick Premier Leonard Tilley obtained the promise of unusually large grants to meet government expenses, which were calculated “on no determinable basis, and [which] favored the Maritime provinces very considerably.”<sup>16</sup> Premier Tilley, who had led his pro-Confederation party to a tough victory in New Brunswick in June, was pleased. Howe remained in London, unappeased.

But the British Government paid little attention to this prophet of doom. It could no longer defend Canada against possible American incursions, if only because the

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<sup>14</sup> Moore, p. 115.

<sup>15</sup> A. I. Silver, *The French-Canadian Idea of Confederation, 1864-1900* (Toronto: University of Toronto Press, 1982) p. 50.

<sup>16</sup> “*Review of Dominion Provincial Financial Arrangements*,” John James Deutsch Fonds, n. name, revised in 1955, Queen’s University Archives, Box 81, File 770. 2.

expense and the distance were prohibitive. It was dismantling its protectionist tariffs, easing away from its mercantilist ties with Canada. As well, in an industrializing era that required massive investments in infrastructure, the deadlock between anglophone Upper Canada and francophone Lower Canada “demonstrated the inadequacy of existing institutions and structures of government.”<sup>17</sup> In unity, the colonies might find strength – and vaguely common cause. Howe could not fight the tide.

In May 1867, deeply disillusioned, he returned to Canada. His faith in the wisdom of the Mother Country was shaken. But he had learned little. When the Dominion of Canada came into existence on July 1, New Brunswick received a so-called “special grant” for which there was “no determinable basis...except as the price to bring it into union.”<sup>18</sup> There was no special grant for Nova Scotia. In September 1867, Howe won election as an anti-confederate MP to the House of Commons. After the first session of that first Dominion Parliament, he rashly led a Nova Scotia delegation for repeal back to Britain between February and July 1868. “He got only one concession,” notes his biographer J. Murray Beck. “[T]he colonial secretary agreed to ask the dominion government to review the impact of its taxation, trade, and fishing policies on Nova Scotia with a view to their modification.”<sup>19</sup> Back in Canada, in December 1868, he finally gave up hope.

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<sup>17</sup> Kenneth Norrie, Douglas Owram and J.C. Herbert Emery, *The History of the Canadian Economy*, fourth edition. (Toronto: Nelson, Thomson, 2008) p. 143.

<sup>18</sup> *Review of Dominion Provincial Financial Arrangements*,” 3.

<sup>19</sup> J. Murray Beck on Joseph Howe in the *Dictionary of Canadian Biography*: [http://www.biographi.ca/en/bio/howe\\_joseph\\_10E.html](http://www.biographi.ca/en/bio/howe_joseph_10E.html)

A month later, after years of protest, he and his fellow Nova Scotia MP Archibald W. McLelan secured a financial agreement with Finance Minister John Rose that promised “better terms.” The province received special grants of \$83,000 per year – and Ottawa increased the per-capita basis for the beleaguered province’s “debt allowance,” an arcane subsidy that initially rewarded more frugal provinces for lower debts. In both Nova Scotia and New Brunswick, federal subsidies amounted to 80 per cent to 90 per cent of provincial budgets. In Ontario and Quebec, where natural resource revenues were significant, they accounted for one-half to two-thirds of revenues.

Howe had done his best – or, depending on the point of view, his worst. He had certainly demonstrated that the arcane business of federal subsidies to member states could evoke fierce emotions and endanger the political peace. In 1873, in a somewhat ironic denouement, he accepted a federal appointment as Lieutenant Governor of Nova Scotia. Less than three weeks later, on June 1, he died at age sixty-eight at Government House in Halifax.

### **Howe’s Legacy**

Howe did bequeath his keen grasp of the pivotal role of fiscal matters in federations to his successors. But he would likely have been shocked to learn how much wisdom and guile would be required over the ensuing decades to adjust the skein of subsidies and grants that tied the nation together. Until the introduction of equalization in 1957, that system would consist *mainly* of per-capita subsidies coupled with ad hoc subsidies to individual provinces or, later, grants hammered



out during one-on-one five-year tax rental deals. As Howe had predicted, it would be an untidy, slapdash system that created winners and losers among the provinces – and endangered social cohesion within the nation-state. As the Royal Commission on Dominion-Provincial Relations characterized the arrangements in 1940: The system of subsidies was “chaotic and illogical.”<sup>20</sup>

Provincial politicians would lean on federal politicians. Depending on the strength of their lobbying – and the dizzying proximity of an election – they could secure more funds. The federal government was perched amid this web, holding the disparate strings, as the key player in arrangements with the Haves and the Have-Nots. As American political scientist Theda Skocpol has observed, elected politicians and appointed officials are independent actors: They “look for ways to aggregate or compromise the interests of diverse groups who have various non-overlapping resources.”<sup>21</sup>

Or, as political scientist Donald Smiley noted: “Only the state-centred view of Canadian federalism can explain the assertiveness and aggressiveness of the provinces other than Quebec.”<sup>22</sup> That is: all provincial governments competed for federal cash while playing self-aggrandizing roles and emphasizing their political

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<sup>20</sup> As quoted in David Milne, “Equalization And The Politics Of Restraint” in *Equalization: Its Contribution to Canada’s Economic and Fiscal Progress*, eds. Robin W. Boadway and Paul A. R. Hobson (Kingston: John Deutsch Institute For The Study Of Economic Policy, Queen’s University 1997) p. 182.

<sup>21</sup> Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States*, (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1992) 29

<sup>22</sup> Donald Smiley, “Federal States And Federal Societies, With Special Reference To Canada” in *International Political Science Review*, Vol 5, No. 4, 1984. p. 447

clout. If politicians are lucky, they learn the art of the mollifying deal – if only to guarantee their own political stability and survival.

There was no neutral commission to arbitrate between Ottawa and its petitioners. There was no set formula for aid. Few cited the perils of provincial dependency or the moral value of inter-governmental sharing. The provision of extra funds was a tough, pragmatic political compromise. Ottawa would make its decision after a province pleaded its case for more cash, which included citing everything from the unfairness of Confederation itself to immediate fiscal need.

Confederation finances were always contentious. In 1864, during rounds of hard bargaining over the federation's proposed revenues and responsibilities, Upper Canadian politicians urged Maritime finance ministers to reduce their bottom-line revenue needs to a bare minimum.<sup>23</sup> Those estimates took little account of any province's social responsibilities, especially toward its poorer citizens.<sup>24</sup> But those estimates became a rough basis for calculating the three principal subsidies at Confederation in 1867: the then-substantial per-capita grants, the subsidies to meet the cost of governance and the debt allowances. The Fathers of Confederation made a trade-off: Ottawa would pay a fixed amount in per-capita subsidies and collect all customs and excise duties, which would be the main source of federal funds.

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<sup>23</sup> E. A. Heamon, *Tax, Order, and Good Government: A New Political History of Canada, 1867-1917* (Montreal & Kingston: McGill-Queen's University Press, 2017) p. 44.

<sup>24</sup> Heamon describes Sir John A. Macdonald's notion of accountability to the citizenry as "quasi-patrician...studiously ignorant of and callous towards the scantily-propertied." p. 460.

At the time, it seemed like a fair deal, at least to the pro-Unionists, whose newspapers chronicled “glittering predictions of state-driven wealth.”<sup>25</sup> In contrast, the anti-Unionists viewed estimates of the money that would flow from the Maritime governments to Ottawa as “murkier...[and] saw much evidence for quasi-imperial and predatory taxation.”<sup>26</sup> They were correct: six decades after Confederation, economist J. A. Maxwell calculated that Nova Scotia lost 90 per cent of its revenue with Confederation, “but only about 55 per cent of its spending responsibilities.”<sup>27</sup>

Problems were almost predictable. The exact amounts of subsidy per person were spelled out in the Constitution, and Ottawa clung to the 1861 census for many provinces to determine the number of residents. As new provinces such as Manitoba joined Canada, they had their per-capita subsidies limited by population caps. But the economy and the population were growing. Premiers in the later decades of the 19<sup>th</sup> century – along with their citizens – literally paid for their predecessors’ controversial bargain.

The trouble was that the Constitution could not freeze time. In 1867, provincial subsidies consumed twenty per cent of federal revenues. By 1887, as Ottawa’s customs revenues grew, per-capita provincial subsidies were only thirteen per cent

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<sup>25</sup> E. A. Heamon, *Tax, Order, and Good Government: A New Political History of Canada, 1867-1917*, p. 58.

<sup>26</sup> E. A. Heamon, *Tax, Order, and Good Government: A New Political History of Canada, 1867-1917*, p. 58.

<sup>27</sup> As cited in E. A. Heamon, *Tax, Order, and Good Government: A New Political History of Canada, 1867-1917*, p. 58.

of federal revenues.<sup>28</sup> And the subsidies were theoretically set in stone. A federal discussion paper would later explain the 19<sup>th</sup> century subsidy hodge-podge to baffled mid-20<sup>th</sup> century politicians: "Serious depression conditions which lasted for almost a quarter century following 1873 also brought the provinces continually to Ottawa for better terms. Many revisions were made, despite the fact that the financial provisions of the British North America Act were specifically stated to be in 'full and final settlement' of any claims of the provinces on the Dominion."<sup>29</sup> To deal with this constitutional stalemate, Ottawa simply shuffled the inputs into its subsidy calculations: it would increase the estimated number of people in a province to push up its per capita payments; it would increase the amount of allowable debt. With new provinces, there were new arrangements to foster social cohesion.

But Ottawa would not, and probably could not, change the system. The Premiers realized that they had to take action. In October 1887, Quebec's Liberal Premier Honoré Mercier invited the First Ministers to a conference on provincial rights in Quebec City. No fool, Prime Minister Sir John A. Macdonald refused to attend. The Premiers unanimously adopted twenty-two detailed resolutions, including demands for higher subsidies because the current payments "have proved totally inadequate," and sent them to Ottawa.<sup>30</sup> Significantly, the Premiers demanded *equal* increases for each province, based solely on census estimates. There was no provision for special treatment for the poorer provinces in their request. Sir John A. simply ignored them.

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<sup>28</sup> Resolution 17, Interprovincial Conference in 1887 in Quebec City in *Dominion Provincial and Interprovincial Conferences from 1887 to 1926*. (Ottawa: Reprinted by Edmond Cloutier King's Printer, 1951). p. 24.

<sup>29</sup> *Review of Dominion Provincial Financial Arrangements*," 3-4.

<sup>30</sup> *Dominion Provincial and Interprovincial Conferences From 1887 to 1926*. (Ottawa: Edmond Cloutier, King's Printer and Controller of Stationery, 1951) p. 24.

But that did not quell the increasing unrest. In 1902, another Interprovincial Conference requested a subsidy increase. Prime Minister Sir Wilfrid Laurier deftly shelved that demand. In October 1906, when the Premiers once again demanded more money, Laurier yielded – partly because the provinces genuinely needed more funds. But any changes to the basic subsidy required a Constitutional amendment, because the existing amounts were itemized in the Constitution. And Britain had to approve any amendments.

The Constitution Act of 1907 spelled out a new formula with higher specific numbers: the subsidy would increase as provincial populations grew; the maximum amount would take effect when the population in any province reached 1.5-million. Laurier also granted an extra \$100,000 per year for ten years to British Columbia – partly because Premier Richard McBride had demanded exceptional treatment. McBride argued that the per-capita cost of running *his* government was five times higher than the average costs in other provinces, and it had been that way for thirty years. The Premier had disputed the very notion of provincial fiscal equality – and won a *temporary* concession.

But, *and this is pivotal*, there was no thought of a permanent formal remedy for fiscal inequality. And no province spoke of new social programs: As their populations grew, they could barely handle their current responsibilities.

Laurier craved harmony. Higher subsidies would purportedly allow the Premiers to tackle the wrenching problems of their industrializing age. He also wanted an end to the persistent lobbying. The schedule of his Constitution Act declared that the

subsidy levels constituted “a final and unalterable settlement.”<sup>31</sup> It was folly to think that this could last – when provincial populations were growing and inflation was nibbling away at the value of the currency. Although such provinces as Manitoba would subsequently win extra cash through one-on-one negotiations, the provisions of the Constitution Act 1907 would endure throughout the early 20<sup>th</sup> century boom and the horrors of World War One. Somehow, despite the wartime **conflict** between francophone and anglophone Canada over conscription, the federation endured. But the federation partners were jealous and suspicious of each other – and that concoction was dangerous to social cohesion and political stability.

### **Australia Pays Attention**

Half a world away, Australia was watching. “Of all other federations the one that most resembles Canada is Australia,” Canadian taxation expert Harvey Perry wrote in 1960. “The two countries have in common the basic British institutions of government, and a catalogue of the geographic, economic, cultural and social characteristics of one applies with only slight modification to the other.”<sup>32</sup> In the early 1900s, Australia was also discovering that it was difficult to preserve its federation bargain. Like the provinces in its sister Dominion of Canada, the six states

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<sup>31</sup> British North America Act, 1907. Schedule.

<sup>32</sup> Harvey Perry, “Foreword” in Eric J. Hanson, *Australian Commonwealth Grants Commission: A Quarter Century of Fiscal Judgement*. (Toronto: Canadian Tax Foundation, 1960. i.

that had joined together on January 1, 1901 to form the Commonwealth of Australia differed widely in “area, climate, topography, development and natural resources.”<sup>33</sup>

Unlike Canada, Australia had a nascent but explicit form of equalization from the start. To compensate for variations in fiscal strength among the state governments, the Australian Constitution allowed the central Commonwealth Government to provide assistance to any needy applicant “on such terms and conditions as the Parliament thinks fit.”<sup>34</sup> Nation building required an ethic of sharing along with a semblance of fiscal equality – if only because many states blamed the very act of federation for their fiscal plight. But there was no official mechanism or formula.

The states were not slow in lining up at the Commonwealth’s doors for assistance. Western Australia, with its sprawling Outback and largely unexplored resource wealth, was the first to receive “relatively small” grants in 1910-1911.<sup>35</sup> Two years later, the isolated island state of Tasmania, which dangled off the southeastern coast of the mainland, was the second to qualify, pocketing between 85,000 and 95,000 British pounds per year. In the mid-1920s, the procedure to determine the size of the grants changed. After years of complaints about political interference, Parliament shuffled that task to the Commonwealth Treasury department and to special commissions established by successive federal governments. In 1929-1930, South Australia with its barren outback desert and

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<sup>33</sup> “The Work of the Commonwealth Grants Commission” in *Commonwealth Grants Commission memo*, December 8, 1944, National Archives of Australia. Series A2770, file 24. 2.

<sup>34</sup> Commonwealth of Australia Constitution Act, 1900, Section 96.

<sup>35</sup> “The Work of the Commonwealth Grants Commission” in *Commonwealth Grants Commission memo*, December 8, 1944, National Archives of Australia. Series A2770, file 24. p. 1.

rugged coastline joined the queue for cash. The parallels with Canada were striking. And yet harmony remained stubbornly elusive.

As a later Commonwealth Grants Commission memo would report, Australia's recourse to ad hoc solutions throughout the 1920s and early 1930s simply did not work:

This [ad hoc] procedure, however, had many weaknesses. The appointment of different personnel to the various bodies set up, and the absence of any consistent or uniform approach to the problems of the weaker States, caused concern to successive Governments. Moreover, since those special bodies investigated the conditions of the applicant State only, it was difficult, if not impossible, to establish principles and methods of assessment which could be applied uniformly to any State at any time. Those conditions gave rise to increasing dissatisfaction in the three States, viz., South Australia, Western Australia and Tasmania, and the impact of the world depression, which reached its peak in or about 1931-32, increased their difficulties.<sup>36</sup>

Even at the time, the Commonwealth Government understood that fiscal inequality among the states was a serious problem that could threaten political stability and social cohesion – and there was no immediate prospect of long-term solutions. On November 5, 1924, Prime Minister Stanley Melbourne Bruce appointed a Royal Commission on the Finances of Western Australia as Affected by Federation.

The three commissioners promptly requested copies of the British Financial Mission report on Brazil, which had theoretically been a federation since 1891. The 39-page report to the Brazilian president, presented in February 1924, noted that

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<sup>36</sup> "The Work of the Commonwealth Grants Commission" in *Commonwealth Grants Commission memo*, December 8, 1944, National Archives of Australia. Series A2770, file 24. 2.



the federal government was enmeshed in battles over loan guarantees that it had offered to the states for infrastructure work. "The Brazilian Government should either make itself directly responsible for the undertaking and arrange the finance directly," the report observed, "or should refuse to give its guarantee where its control is difficult and limited."<sup>37</sup>

State borrowing would become an important issue: Canada's federal government would confront a similar quandary in the mid-1930s. The Royal Commission on Western Australia also obtained a copy of the Baxter Commission report from May 1923 on financial relations between several provinces and the Union Government of South Africa, which had been a federation since 1909. As Canada would later do, the Australians were researching their situation, canvassing other federations for their financial experience and expertise.

The ensuing report on Western Australia in September 1925 substantiated the Commonwealth Government's concerns. State residents were talking angrily about secession, which a newspaper "of wide circulation...sedulously fostered."<sup>38</sup> Commission Chair Stephen Mills rued the talk of secession "which has obtained a degree of acceptance that cannot be dismissed as insignificant."<sup>39</sup> Commissioner John Entwistle was even blunter: "In my opinion Western Australia should never have entered the Federation, but, having done so, there is, I feel convinced, only one

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<sup>37</sup> Report Submitted to His Excellency the President of the United States of Brazil, February 23, 1924 in Brazil – Report of British Financial Mission, Australian Prime Minister's Department, Series number CP660/17, control symbol Bundle 1/Brazil. 34.

<sup>38</sup> *Report of the Royal Commission on the Finances of Western Australia as affected by Federation*, National Archives of Australia, West stack, Call number Nf336.941 R425, enumeration c.1. p. x.

<sup>39</sup> Report. x.

complete and satisfactory remedy for her present disabilities, viz., Secession...As, however, it cannot be taken for granted that Secession will take place, I have joined in recommendations having the object of relieving (at least to some extent) the present financial disabilities.”<sup>40</sup>

To cite the approach of Italian Marxist theoretician Antonio Gramsci, such talk of secession among the largely British-born miners and their families in Western Australia, as well as the descendants of transported convict laborers, put pressure on the commissioners themselves and on the elites in Melbourne, which remained the capital until 1927. Change was necessary to maintain their cultural and political hegemony in fiscally unequal states – and to keep the political peace.

The commissioners concluded that the Commonwealth Government’s protectionist policy had hurt the State’s primary producers – but the federation’s customs duties could not be lowered “without injuring the secondary industries of the Eastern States.”<sup>41</sup> They were in a quandary. Two commissioners recommended that Western Australia regain the right to impose its own tariff for twenty-five years. The third commissioner dismissed that notion: Individual state barriers to trade would only lead to “a less prosperous people and a fuller State Treasury.”<sup>42</sup>

The fastest way to placate this dangerous dissatisfaction over inequality among the states – as it would become in Canada so often in the future – was more money. But no one could agree on why the state merited these funds. Many state petitioners had argued that they needed more money *because the federation was inherently*

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<sup>40</sup> Report. x.

<sup>41</sup> Report, vii.

<sup>42</sup> Report, cxi.

*unfair*. The Commissioners dodged that issue. They simply recognized that the state treasury could use more cash to meet such increasing needs as technical training. They could not agree on the exact amount: two recommended a special payment of 450,000 pounds per year if the state did not regain the right to levy its own tariff; the third recommended 300,000 pounds per year.<sup>43</sup> The Commonwealth settled on a smaller grant than the majority recommended – but that funding stretched over five years.<sup>44</sup> Canada was already a minor model: In the Royal Commission's consideration of such state complaints as the need for more grants-in-aid for technical education and term limits for Parliamentary members, the report cited policies in Canada and the United Kingdom.<sup>45</sup>

### **Mackenzie King Tackles Regional Woes...Belatedly**

In Canada, Prime Minister William Lyon Mackenzie King faced regional dissatisfaction as provinces struggled to provide more services to their citizens in the anxious post-World War One world. Crammed into cities, cut off from the traditional supports that extended families could provide, many Canadians were beleaguered. Their society was changing around them. The skills and education required to succeed in the workplace were escalating. Where were the additional funds for everything from education to expanded mothers' allowances? What about

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<sup>43</sup> Report. x.

<sup>44</sup> Jim Hancock and Julie Smith, *Financing The Federation*. (Adelaide: The South Australian Centre For Economic Studies, 2001) 28.  
<https://www.adelaide.edu.au/saces/publications/reports/consultancy/FinancingtheFederation.pdf>

<sup>45</sup> *Report of the Royal Commission on the Finances of Western Australia as affected by Federation*, National Archives of Australia, West stack, Call number Nf336.941 R425, enumeration c.1. lxiv, cxxv.

improved basic public health care in a nation that had just come through the lethal Spanish Influenza epidemic? There never seemed to be enough resources for a society that was changing faster than the capacity of any government to address those needs.

The poorer provinces could not cope with the strain of inequality. In 1923, in Halifax, Conservative MLA H. W. Corning demanded a referendum on Nova Scotia's secession from Canada, and the creation of an independent self-governing British Dominion. Ottawa was violating the "spirit of the Confederation compact:" Nova Scotia was not receiving fair treatment in "freight rates, railway shipping and other activities upon which the prosperity of the Province depended."<sup>46</sup> Worse, Corning maintained, Nova Scotia "was forced to support the policy of protective duties that were mainly beneficial to upper Provinces, while increasing the cost of living at home with no balancing benefits."<sup>47</sup> It is fair to speculate that Joseph Howe would have been so proud of his political comrade in the battle against inequality. But such complaints – and the suggested remedies – were fraying social cohesion and political stability.

King really did not understand Atlantic Canada and its already potent Maritime Rights movement with its complaints about unfair federal treatment of the provincial governments. For decades, Maritime governments had grumbled about low subsidies, their diminishing political clout, and Ottawa's offhanded neglect. But, in the 1920s, Maritimers nursed a new and dangerous grievance. Regional

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<sup>46</sup> As paraphrased in "Wants Nova Scotia Separate Dominion" in *The Globe*, Friday, April 20, 1923. Page one..

<sup>47</sup> As paraphrased in "Wants Nova Scotia Separate Dominion" in *The Globe*, Friday, April 20, 1923. page one.

manufacturers had survived Ottawa's high tariff walls because the Moncton-based Intercolonial Railway had provided low-cost transportation since the late 1870s. Maritime manufacturers could compete in Western and Central Canada because their freight rates were twenty-to-thirty-per-cent lower than those in Ontario.<sup>48</sup> Capital investment in Maritime manufacturing had actually *quadrupled* between 1900 and 1920.<sup>49</sup>

When the war ended, however, the federal government had combined the nation's struggling railroads into one entity, and then clamped the well-regarded Maritime railroad under the jurisdiction of its Board of Railway Commissioners. When Central Canadian manufacturers and Prairie farmers demanded lower freight rates like those on the Intercolonial, Ottawa simply hiked Maritime rates. Worse, in 1920, the railway commissioners had raised *national* freight rates by forty per cent. Between 1916 and September 1920, Maritime freight rates had risen between 140 and 216 per cent.<sup>50</sup>

Atlantic Canada seethed. Merchants were devastated. The protest against freight rates pulled together labour and business groups, along with farmers and fishermen, *against* the rest of the country.<sup>51</sup> In the 1921 federal election, the Liberals exploited

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<sup>48</sup> E. R. Forbes, "The Origins of the Maritime Rights Movement" in *Challenging the Regional Stereotype: Essays on the 20<sup>th</sup> Century Maritimes*. (Fredericton: Acadiensis Press, 1989) 102.

<sup>49</sup> E. R. Forbes, *Essays on the 20<sup>th</sup> Century Maritimes: Challenging the Regional Stereotype*. (Fredericton: Acadiensis Press, 1989) p. 102.

<sup>50</sup> E. R. Forbes, *Maritime Rights: The Maritime Rights Movement. 1919-1927, A Study in Canadian Regionalism* (Montreal: McGill-Queen's University Press, 1979) 70, 68.

<sup>51</sup> E. R. Forbes, "The Origins of the Maritime Rights Movement" in *Challenging the Regional Stereotype: Essays on the 20<sup>th</sup> Century Maritimes*. (Fredericton: Acadiensis Press, 1989) 113.

this anger over inequality: King went on to capture twenty-five of the region's thirty-one ridings in a protest vote against Conservative rate hikes. But then, typically, King dawdled – and the intensifying Maritime identity as a victim of Confederation's inequalities grew even stronger. In September 1923, Prince Edward Island voters replaced their Liberal government with a Conservative one. By 1925, the price of inaction was apparent. In late June, Nova Scotia's Liberal government fell, and Conservative Premier Edgar Rhodes promised to stop the flight of young people to other regions in search of better jobs. In mid-August, New Brunswick voters also ousted the Liberals; the new Conservative Premier John Baxter was a strong advocate of Maritime Rights, including freight-rate reductions. Three provincial Liberal governments had now fallen within three years. In the federal election of October 29, 1925, the Liberals slipped from twenty-three Maritime seats to six. It was only four short years since King had romped to victory in the Maritimes by exploiting the very wave of discontent that had now swamped him.

Voters in the three Maritime Provinces – and their Premiers – had sent a strong message about the depth of Maritime discontent. With little indication of a response to their complaints about fiscal inequality, they had damaged the Liberal Party elite's political clout. Prime Minister King would later bluntly summarize his peacemaking priorities: "We began with the Maritimes when they were in a state of insurgency."<sup>52</sup> The Prime Minister fell back on the reliable device of a Royal Commission. Theoretically, as political scientist Adam Ashforth maintains, Royal

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<sup>52</sup> Prime Minister Mackenzie King to Queen's University Professor Norman McLeod Rogers, January 25, 1930. LAC. Prime Ministers' Fonds. C2322. Volume 180. Reference number MG26 J1. 153886.

Commissions can be viewed as “schemes of legitimation”: their conclusions constitute discourse that allows the state to take collective action – because that action has now become “thinkable, and therefore organizable.”<sup>53</sup> In this case, King needed to prod his cabinet into an understanding of the East’s profound sense of inequality compared to the other provinces.

On April 7, 1926, the Prime Minister proudly unveiled his three-man Royal Commission, chaired by British industrialist Sir Andrew Duncan, to report on Maritime claims. It was “most undesirable,” King declared, that Maritime residents should believe that their interests were “being knowingly prejudiced.”<sup>54</sup> The Duncan Commission would scrutinize freight rates on the former Intercolonial Railway, and look at how federal policies such as customs duties affected the three provinces. Maritimers were elated: it seemed that Ottawa was finally addressing their problems within the federation. Such scrutiny, *The Halifax Herald* reported, would “ensure a return of contentment and prosperity.”<sup>55</sup>

On the day *after* that announcement King witnessed the depth of Maritime rage at such economic and fiscal inequality. He had not grasped the threats to social cohesion and his government’s very survival. On the afternoon of April 8, however, he met with a young man from Nova Scotia, whom he did not identify in his diary

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<sup>53</sup> Adam Ashforth, Abstract of “Reckoning Schemes of Legitimation: On Commissions of Inquiry as Power/Knowledge Forms” in *Journal of Historical Sociology*, Vol. 3, No. 1, March 1990. 1.

<sup>54</sup> “Sir Andrew Duncan Heads Commission of Investigation” in *The Halifax Herald*, Thursday, April 8, 1926. LAC, Prime Ministers’ Fonds. C3457. Volume 102. Reference number MG26 I. 58487.

<sup>55</sup> “Sir Andrew Duncan Heads Commission of Investigation” in *The Halifax Herald*, Thursday, April 8, 1926. LAC, Prime Ministers’ Fonds. C3457. Volume 102. Reference number MG26 I. 58487.

but who was probably a journalist. "Sinclair of N. S. astonished me by speaking of the strength of the secessionist movement in the Maritimes," King wrote. "It is a sort of council of despair." [sic]<sup>56</sup> Maritimers lacked markets, and "their people are leaving for the U.S. largely. There is need for radical change in freight rates & tariff policy."<sup>57</sup>

Chair Sir Andrew Duncan delivered his report in September 1926, although it was not tabled in the House of Commons until December 10 of that year. In a precedent that Australians would later note, Duncan declared that the Maritimes Provinces were partly responsible for their own woes. More important, in another precedent for Australia, he firmly refused to blame Confederation for the plight of relatively unequal prosperity and development among the provinces:

We are unable to take the view that Confederation is, of itself, responsible for this fact.... Even within Confederation there has been such a measure of responsibility resting on each province for its own development that much at least of what has happened within the Maritime Provinces must be related to their responsibility and not the responsibility of the Dominion.... If there are directions in which the Maritime Provinces have not progressed, or have declined since 1867, there are many more directions in which they have made enormous advances, and if the former are all to be ascribed to Confederation merely on the general argument of 'After the event therefore on account of the event', just as much must be the latter.<sup>58</sup>

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<sup>56</sup> Diary of William Lyon Mackenzie King, Thursday, April 8, 1926.  
[http://www.collectionscanada.gc.ca/databases/king/001059-119.02-e.php?&page\\_id\\_nbr=9805&interval=20&&PHPSESSID=5dmic1fije5c1beg7ikvj8vlu7](http://www.collectionscanada.gc.ca/databases/king/001059-119.02-e.php?&page_id_nbr=9805&interval=20&&PHPSESSID=5dmic1fije5c1beg7ikvj8vlu7)

<sup>57</sup> Diary of William Lyon Mackenzie King, Thursday, April 8, 1926.  
[http://www.collectionscanada.gc.ca/databases/king/001059-119.02-e.php?&page\\_id\\_nbr=9805&interval=20&&PHPSESSID=5dmic1fije5c1beg7ikvj8vlu7](http://www.collectionscanada.gc.ca/databases/king/001059-119.02-e.php?&page_id_nbr=9805&interval=20&&PHPSESSID=5dmic1fije5c1beg7ikvj8vlu7)

<sup>58</sup> Sir Andrew Rae Duncan, *Report of the Royal Commission On Maritime Claims* (Ottawa: F. A. Acland, Printer to the King's Most Excellent Majesty, 1926) 9, 10.



Three decades later, the equalization program would adopt Duncan's refusal to blame the act of federation in 1867 for present-day inequalities. Still, the Commission's thirty-nine prescriptions were generous. The Commissioners called for an *interim* lump sum increase in the federal subsidy, pending in-depth federal examination. They also called for immediate freight rate reductions of twenty per cent and renewed transportation subsidies for Maritime coal. Although King worried that Duncan had "gone too far" on subsidies, the report suited his strategic requirements perfectly: "All I need to do is to stand firm on this report, and count on getting back Maritime support to keep us strong in future years."<sup>59</sup>

In the spring of 1927, however, King's cabinet objected to the cost of Duncan's plan. Maritime scholar Ernest R. Forbes argues that the cabinet "changed Duncan's program for Maritime rehabilitation into a plan for Maritime pacification."<sup>60</sup> King raised the region's annual subsidies by \$1.6-million – "but presented them only as temporary grants conditional upon Maritime good behavior" – and cut most freight rates by twenty per cent. King did not publicly confirm the increase as permanent until all provinces supported it later that year. In the interval, he was able to fend off

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<sup>59</sup> Diary of William Lyon Mackenzie King, Wednesday, September 22, 1926.  
[http://www.collectionscanada.gc.ca/databases/king/001059-119.02-e.php?&page\\_id\\_nbr=10127&interval=20&&PHPSESSID=ganapt4ehvqasv8sn6m917ton1](http://www.collectionscanada.gc.ca/databases/king/001059-119.02-e.php?&page_id_nbr=10127&interval=20&&PHPSESSID=ganapt4ehvqasv8sn6m917ton1)

<sup>60</sup> Ernest R. Forbes, *Maritime Rights: The Maritime Rights Movement, 1919-1927: A study in Canadian Regionalism*. (Montreal: McGill-Queen's University Press, 1979) p. 176.

additional claims.<sup>61</sup> He ignored many other proposals. But he shrewdly declared that he was adopting Duncan's measures "virtually in their entirety."<sup>62</sup>

At the time, few Maritimers noticed the gulf between what he said and what he did.

But the times were prosperous. By early November, at a Dominion-Provincial Conference, King could afford to placate all the poorer provinces. First, the nine Provincial Premiers endorsed the Duncan report, ensuring that those temporary grants became permanent.<sup>63</sup> That special increase in subsidies to handle fiscal inequalities set a precedent for the first tentative and minuscule version of equalization in the tax-rental agreements of the 1940s: Maritimers would come to view this exception to the theoretical insistence on equal fiscal treatment of the provinces as part of their identity as Confederation partners.

At long last, harmony prevailed. At that same 1927 Conference, King also secured provincial agreement to transfer control over natural resources from Ottawa to the three Prairie Provinces. That put them in a position of constitutional equality with the other six provinces after six decades of fierce disputes. The nine Premiers also refrained from any objections to the return of the railway lands to British Columbia, which had surrendered them to Ottawa in the 19<sup>th</sup> century as a path for the transcontinental railroad.

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<sup>61</sup> Ernest R. Forbes, *Maritime Rights: The Maritime Rights Movement, 1919-1927: A study in Canadian Regionalism*. p. 176.

<sup>62</sup> Ernest R. Forbes, *Maritime Rights: The Maritime Rights Movement, 1919-1927: A study in Canadian Regionalism*. (Montreal: McGill-Queen's University Press, 1979) 177.

<sup>63</sup> Official Précis for Wednesday morning, November 9, 1927. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935; January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King's Printer, 1951) 23.

The Duncan Commission would become a model for nation-building over the ensuing decades. The Royal Commission allowed politicians to take collective action because a three-person panel with expertise on the issues had recommended it.<sup>64</sup> Although King would also resort to Royal Commissions as a way to temporize, most Commission hearings reinforced national bonds *anyway*: Witnesses could articulate their frustrations to commissioners – and to their fellow Canadians. Theoretically at least, mutual understanding among the regions could grow, fostering social cohesion and political stability. But it would be an uphill battle.

### **The Australians Take Action**

The Duncan Commission would also represent a milestone in the deepening relationship between Australia and Canada as both central governments scrutinized each other's approach to inequality. On July 27, 1928, Australian Prime Minister Stanley Melbourne Bruce telegrammed Prime Minister King: "Would be grateful for twelve copies Royal Commission on Maritime Claims. Would also be glad of information of action taken thereon. Similar inquiry here."<sup>65</sup> King replied promptly in the terse language of telegrams: "Forwarding today twelve copies report Royal Commission on Maritime Claims also Hansard containing statement government

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<sup>64</sup> Adam Ashforth, Abstract of "Reckoning Schemes of Legitimation: On Commissions of Inquiry as Power/Knowledge Forms" in *Journal of Historical Sociology*, Vol. 3, No. 1, March 1990. 1.

<sup>65</sup> S. M. Bruce to Prime Minister, Ottawa, Canada, July 27<sup>th</sup>, 1928 in *General, 1928-29 Royal Commission on Finance of South Australia*, National Archives of Australia, Series A460. Control E5/36, Barcode 90417, p. 20.

policy.”<sup>66</sup> A day later, Bruce formally appointed a Royal Commission on the Finances of South Australia as Affected by Federation.<sup>67</sup>

Once again, the problem was the structure of federalism itself. The economies of the individual states could not be equal because of their unequal circumstances. As Australian historian Russel Ward observed, Prime Minister Bruce had adopted the practice “of making special or ‘extra’ grants to the less populous and prosperous states.”<sup>68</sup> Now Bruce needed to know: How was that slapdash approach to grants working? How had the financial fortunes of the South Australia state evolved since federation? After all, as the Commonwealth Grants Commission memo reported in 1944, there was an “absence of any consistent or uniform approach to the problems of the weaker States.”<sup>69</sup>

The Australians were also examining how the world’s few other federations were coping. In mid-October, anxious for information about the American approach to fiscal inequality among the states, the Royal Commission on South Australia asked Prime Minister Bruce to instruct Australian diplomats in the United States to find out. Their diplomatic letter to the U.S. Treasury Department went unanswered for two months: Finally, diplomats received a reply that outlined the different federal

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<sup>66</sup> Mackenzie King to Prime Minister, Canberra. August 1, 1928. in *General, 1928-29 Royal Commission on Finance of South Australia*, National Archives of Australia, Series A460. Control E5/36, Barcode 90417, p. 18.

<sup>67</sup> Report of the Royal Commission on the Finances of South Australia as Affected by Federation Together With Appendices to The Parliament of the Commonwealth of Australia, 1929. National Archives of Australia, West Stack, Call number NLPf 336.942A938, Enumeration NL pbk c.1. p.3.

<sup>68</sup> Russel Ward, *The History of Australia: The Twentieth Century* (New York: Harper & Row, 1977) 205.

<sup>69</sup> “The Work of the Commonwealth Grants Commission” in *Commonwealth Grants Commission memo*, December 8, 1944, National Archives of Australia. Series A2770, file 24. 2.

departmental expenditures on direct payments to the states over two fiscal years along with references to two academic studies. When an Australian official forwarded the U.S. response to Canberra, he added wearily: "It is admitted that...the information sent forward is – in most instances – wide of the mark."<sup>70</sup> Still, the Royal Commission on South Australia now understood that the American federal government transferred funds – albeit in a haphazard fashion – to the states for such *specific* issues as rural roads. There were no general transfers for inequality. That model for handling inequality would eventually become another model under consideration for Canada and Australia.

Perhaps ironically, the Australian Royal Commission report appeared in August 1929, two months before the onset of the Great Depression. As economist John K. Wilson explains, Australia was already mired in economic problems prior to the Wall Street crash because its high wages hindered its exports – and it imported many capital goods: "In 1929, British lenders adopted a more stringent view of the Australian capacity to service debt, and towards the end of the year new credit effectively stopped."<sup>71</sup> Historian Ward, in turn, dates the beginning of the Australian Depression to the autumn of 1928, when the nation's "excessive dependence on world prices for wheat and wool" hit hard when prices began to tumble.<sup>72</sup>

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<sup>70</sup> Official Secretary D. M. Dow, Office of the Commissioner for Australia in the U.S.A., New York, to Secretary, Prime Minister's Department, Canberra on December 14, 1928. *General, 1928-29 Royal Commission on Finance of South Australia*, National Archives of Australia, Series A460. Control E5/36, Barcode 90417, p.5.

<sup>71</sup> John K. Wilson, "Government and the evolution of public policy" in *The Cambridge Economic History of Australia*, eds. Simon Ville and Glenn Withers. (Port Melbourne, Victoria: Cambridge University Press, 2015) 341-342.

<sup>72</sup> Russel Ward, *The History of Australia: The Twentieth Century*, 163.

The Commission report on South Australia was succinct. And, while citing Canadian and American precedents, it would also set new standards for Canada's handling of provincial fiscal inequalities in the 1930s. Although the two nations would look closely at other federations such as Argentina, they were becoming so intertwined that one nation's report would cite the other's earlier report – back and forth - as they grappled with the challenges posed by federalism. The Royal Commission report noted that South Australia had been facing “an acute and pressing problem” before the establishment of the Royal Commission in July 1928.<sup>73</sup>

But the commissioners did not blame the state's fiscal woes on the mere act of federation. Instead, they concluded that South Australia's problems arose “chiefly from her geographic position, her adverse natural conditions – climate, rainfall and natural configuration – and lack of natural resources.”<sup>74</sup> Then they reinforced the connection with Canada:

In every Federal form of government the same phenomena appear. The advantages and disadvantages follow the course of nature, and distribute themselves unevenly as between the member States. *To balance these natural inequalities, it is found necessary to make provision from time to time for some form of compensation.* The latest instance of this is to be found in the Report of the Canadian 'Royal Commission on Maritime Claims' published in 1927. This Royal Commission was appointed by the Canadian Federal Government... The result was a recommendation of interim lump sum increased payments amounting to £325,000 per annum, in addition to many other suggestions affording relief.... The same principle is adopted in the United States of America.<sup>75</sup>

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<sup>73</sup> Report of the Royal Commission on the Finances of South Australia as Affected by Federation Together with Appendices, The Parliament of the Commonwealth of Australia, 1929. National Archives of Australia, West stack, Call number NL.pf 336.942A938, Enumeration NL pbk c.1. p. 8.

<sup>74</sup> Report, p. 18.

<sup>75</sup> Report, p. 18. My italics.

The Royal Commission on South Australia was especially important for Canada because it dismissed the attempts of such specific groups as farmers to blame their plight on the disabilities of federation. Even pivotal complaints about the tariff were attributed to South Australia's natural inequalities, which put it at a disadvantage "from any policy aiming at the creation and maintenance of secondary industries over a large continent... This inequality in the incidence of a tariff is inherent in all Federations."<sup>76</sup> The report added crisply that, a century ago, the southern American states, which were the primary producing states, had sent similar complaints to Congress about the tariffs on manufactured goods that they were forced to buy. The citation from the Southern States of America petition of 1831 did not mention that labour costs in a slave-owning plantation economy were far lower than those in the northern states. Nor did the Commissioners themselves.<sup>77</sup> The very notion of dismantling tariff protection in Australia was not considered.

But the report did not stop there. Instead, it itemized eleven *benefits* that federation had brought to South Australia including subsidies for many industries, loans for railway construction, new infrastructure such as lighthouses, and payments for old-age pensions and maternity allowances. As the report observed dryly, it was apparent "that the benefits accruing to South Australia from Federation are of a most substantial character."<sup>78</sup> Nonetheless, the report called for a special

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<sup>76</sup> Report, p. 26.

<sup>77</sup> Report, p. 26.

<sup>78</sup> Report, p. 31.

grant of £500,000 per year for two years because the state “is worthy of sympathetic treatment.”<sup>79</sup>

But this was another ad hoc solution to the ongoing problem of inequality. The commissioners confessed that they could not find a general formula to remedy what would surely be fluid situations among the states over the decades. Instead, they recommended that the Commonwealth Government create a permanent body of specially qualified people “who would be able from time to time to inform the Commonwealth and the States authoritatively of the inter-actions of their policies and financial proposals.”<sup>80</sup> That search for expertise and for an adequate general formula for fiscal inequality among the states would become the challenge of the ensuing decades.

Four months later, on December 6, 1929, Australia’s new Prime Minister James Henry Scullin asked the Parliamentary Joint Committee of Public Accounts to examine Tasmania’s disabilities – in response to that state’s ongoing complaints. Scullin, who had defeated Prime Minister Bruce in October, was clearly anxious to shore up political support on the outlying island.

When the committee reported on August 7, 1930, it outlined a novel way of determining a state’s plight: How severe was the state’s taxation? The answer was very severe. Even though Tasmania had imposed taxes that were double the Australian average over the last five years, “the financial position was becoming

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<sup>79</sup> Report, p. 37.

<sup>80</sup> Report, p. 33.



acute.”<sup>81</sup> Clearly, “taxation has overstepped the economic limit: the depression grew worse, and the exodus of population to the mainland reached unprecedented proportions.”<sup>82</sup> Still, the Commission urged the State government to “carefully investigate the possibility of increasing taxation on the higher incomes in Tasmania to the Australian average.”<sup>83</sup> That, too, was probably important for social cohesion.

But the committee had also learned from the investigations of those earlier commissions. “It was inevitable that there would always be trouble in the financial relations between the Commonwealth and the States,” the report observed dourly. “Similar troubles occurred in the United States of America, Canada, South Africa and Germany. Difficulties occurred particularly where there was a great diversity in the size, population, development and resources of the different states forming a union.”<sup>84</sup> [Germany and South Africa were also federations.]

Then, in the clearest sign of the two federations’ increasing reliance on each other’s experience, the Parliamentary Joint Committee devoted a substantive section of its report to a “remarkable case parallel with that of Tasmania [that] had been established in Canada in the treatment of these [Maritime] Provinces.”[Sic]<sup>85</sup> The circumstances surrounding the Duncan Commission were so similar that the conclusions were “very pertinent to the present situation of Tasmania.”<sup>86</sup> In

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<sup>81</sup> Report of the Joint Committee of Public Accounts on The General Question of Tasmania’s Disabilities, The Parliament of the Commonwealth of Australia, August 7, 1930. National Archives of Australia, West stack, Call number Nf336.946A938, Enumeration N pbk c. 1. p. 16.

<sup>82</sup> Report, 16.

<sup>83</sup> Report, 46.

<sup>84</sup> Report, 37.

<sup>85</sup> Report, 37.

<sup>86</sup> Report, 37.

particular, the committee singled out the section of the Duncan report that urged the central government to provide a sufficient minimum payment, “not in a spirit of meticulous bargaining, but in the broad spirit which arises from a feeling of their being met with sympathy and fairness rather than with narrow compromise.”<sup>87</sup> Sharing could be a moral duty – *and* a pragmatic ploy.

More importantly, the Parliamentary Joint Committee repeated the call of previous royal commissions: It was time that the Commonwealth Government eliminated ad hoc approaches. It recommended the creation of a “permanent body...to make a continuous study of the financial relations of the Commonwealth and the States.” It added bluntly: “An effort [should] be made to bring about uniformity in the preparation of Commonwealth and State financial statements.”<sup>88</sup>

Australia and Canada were groping their way toward a more permanent solution to the problems of inequality in a federation. As Canada had ruefully learned, the economic circumstances of individual states changed over time – so the federal government needed a flexible system of transfers as opposed to a static, constitutionally-entrenched system of fixed per-capita subsidies.

The practice of special subsidies to poorer provinces in special circumstances was one way around that problem but such special treatment only upset the richer provinces. Few politicians considered the possibility of abolishing tariffs – especially after Sir Wilfrid Laurier’s ill-fated bid to introduce free trade with the United States in 1911. So Canada would remain an east-west construct that operated for the

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<sup>87</sup> As quoted from the *Report of the Royal Commission on Maritime Claims*. 37.

<sup>88</sup> Report of the Joint Committee of Public Accounts on The General Question of Tasmania’s Disabilities, The Parliament of the Commonwealth of Australia, August 7, 1930. 46.

benefit of Central Canada at the expense of many poorer provinces on the peripheries.

The Australian system of special grants based on individual applications was contentious – largely because of its “various ad hoc processes and varying criteria,” which could be based “on the financial effects of federal policies” or were “intended to offset the adverse financial circumstances of the States.”<sup>89</sup> There *had* to be a better way to handle inequality in a federation: richer and poorer states – and richer and poorer taxpayers – needed the reassurance of independent appraisers with a comprehensive investigative approach to a state’s plight and the promise of a fair formula for resolution. Otherwise, grants might simply reward bad judgment, or allow states to get away with not doing enough to help themselves.

The fear of dependency was in a tug-of-war with the need for generosity to fellow citizens. No one could find a satisfactory fiscal mechanism that would remedy inequality and bring *balance* to the seesaw of competing pressures. And no one could guarantee that the states with the most clout or the most powerful backers would not capture the bulk of the central government’s attention and funds.

None of the Canadian and Australian reports make sense unless they are set against the context of their changing economic times. During the prosperous years of the 1920s, it was clear that citizens expected – and needed – far more from their governments than they could deliver. Both the Australian and the Canadian economies were becoming far more industrialized within increasingly concentrated geographic areas, leaving many people on the sidelines, scrambling to stay afloat as

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<sup>89</sup> *The Commonwealth Grants Commission: The Last 25 Years*. (Barton, Canberra ACT: The Australian Government, Commonwealth Grants Commission, 2008) 31.

outdated plants closed or moved or struggled to survive. Governments could not cope with such unequal economic development: In particular, they could not respond adequately to the needs of the poorer regions, including the costs of relief and support for widowed mothers and the disabled.

### **Federalism and the Depression**

As the Depression settled heavily on Australia and Canada, it became clear that different levels of government lacked the money or the power or even the basic programs to deal with this difficult global collapse. All levels of government confronted the challenge to do more than they had ever deemed appropriate. State officials found their expertise and their governmental capacities tested to the utmost – and often failing. *Relatively* open economies such as those in Australia and Canada were vulnerable to price fluctuations in such commodities as wheat and wool. Their central governments were trapped amid radically different regional demands for tariff adjustments and currency devaluations. Provincial officials faced unprecedented social crises that the traditional refuges of churches and charities could not come close to alleviating. Municipal governments could not handle the flock of relief claimants for basic food and shelter.

Politicians and their bureaucrats were at sea amid these perplexing and so far unsolvable demands. This was not the world of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries when the roles of business, labour, political and personal responsibility were delineated – **if** frequently challenged. In Australia, on July 28, 1930, *The Sydney Morning Herald's* front-page news summary captured the bad domestic news. The

unemployed, including “hunger-marchers,” had just held a conference at which a prominent Communist presided, “and the demands submitted for approval were of an extravagant nature.”

Political stability was under threat: The federal budget proposals “have given rise to talk of secession from the Commonwealth in both Victoria [state] and South Australia.” The Melbourne Chamber of Commerce president singled out the “Federal Government’s incapacity” as the reason for Victoria’s threat to leave. The Attorney-General of South Australia declared that his state “would have to consider unification or secession unless it gets substantial relief.” Sydney merchants decried the higher duties on timber. One thousand men left for make-work projects in the countryside.<sup>90</sup>

On that same day, in Canada, the federal election dominated the headlines. *The Globe* endorsed the Liberals’ support for a system of tariff preferences for British Empire goods, citing new plant developments in Canada to take advantage of those preferences.<sup>91</sup> In Regina, in a radio address, Finance Minister Charles Dunning called for an unemployment insurance scheme that the provinces would operate with Ottawa’s cooperation.

The party leaders made their final pitches. In a two-hour address over the nationwide radio network, Prime Minister King reviewed his lengthy record, including Empire trade preferences, the reduction of the tariffs on producers and on

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<sup>90</sup> All news items in “Summary” in *The Sydney Morning Herald*, Monday, July 28, 1930, late edition, p. 1.

<https://www.newspapers.com/image/124099872>

<sup>91</sup> “What It Means to Canada” in *The Globe*, Monday, July 28, 1930. p. 1

consumer necessities and “the removal of grievances in the Maritime Provinces.” He insisted that Ottawa had been active in addressing unemployment: Indeed, his government had offered to match the provinces and municipalities, dollar for dollar, “as soon as we are advised by the Provinces concerned that the unemployment, within its borders, is of such magnitude as to constitute an emergent condition requiring Dominion assistance.”<sup>92</sup> The Prime Minister’s blithe talk was out of touch with an increasingly desperate electorate.

Meanwhile, in an Ottawa campaign finale on Sunday, Conservative Leader R. B. Bennett denounced “the tragedy of unemployment, and declared such a condition should not exist in Canada.”<sup>93</sup> He promised relief for the unemployed – and called for reciprocal trade agreements and mutual preferences. Indeed, he had vowed to do whatever was necessary to combat unemployment “or perish in the attempt.”<sup>94</sup> Bennett won a huge majority – 135 seats to King’s 89 seats – although his share of the popular vote had risen less than three percentage points. King viewed the results as “a great surprise...I have gone down if I have with flying colours. A fine record of govt., a fine issues [sic], etc. & before more difficult times come.”<sup>95</sup>

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<sup>92</sup> Coast-to-Coast Radio Message Sounds Final Call to Canadians To Mark Ballots for Empire Trade: Premier King, Speaking From Laurier House to Millions of Citizens, Enunciates Great Doctrine of Empire Commerce, and Asks Support for ‘May Day’ Budget; Campaign Ends; Voters to Decide” in *The Globe*, Monday, July 28, 1930. pps. 1 and 10.

<sup>93</sup> “Ottawa Meeting Marks Last Stage of Tory Campaign: Bennett Assails New Zealand Butter and Soviet Coal Importations Thanks All Electorate: Night of Rain as Conservatives Wind Up Their Speechmaking” in *The Globe*, Monday, July 28, 1930. pps. 1 and 2.

<sup>94</sup> R. B. Bennett, June 9, 1930.

<https://www.collectionscanada.gc.ca/primeministers/h4-3281-e.html>

<sup>95</sup> Diaries of William Lyon Mackenzie King, Tuesday, July 29, 1930. pps. 174 and 175.

He was right about one thing: It was a hard era for politicians. King blamed many factors including lack of organization and poor publicity for his defeat. But, as he conceded in his diary, “the extent of unemployment counted for very much.”<sup>96</sup>

So many men and women were scrambling for any work, however temporary. So many children were hungry, and leaving school to earn pennies. Between 1929 and 1932, Dominion expenditures increased by \$132 million while revenues decreased by \$140 million “as tax revenues dried up...[But] an increase of \$132 million in Dominion expenditures was not large enough, nor sustained long enough...to compensate for declining expenditures in the private sector.”<sup>97</sup> As Statistics Canada has warned, labour force data prior to 1945 remains approximate. But it estimates that Canadian unemployment skyrocketed from three per cent or less in 1929 to 19.3 percent in June 1933.<sup>98</sup>

In the Dirty Thirties, the news was seemingly always bad. Historian James Struthers has captured Canada’s rapidly increasing plight: In June 1931, roughly 471,000 workers – or 18.6 per cent of the labour force – were unemployed; by February 1932, as the results of the 1931 census trickled out, the Dominion Bureau

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<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=12384&>

<sup>96</sup> Diaries of William Lyon Mackenzie King, Tuesday, July 29, 1930, p. 175.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=12385&>

<sup>97</sup> Kenneth Norrie, Douglas Owram and J.C. Herbert Emery. *The History of the Canadian Economy*, fourth edition. (Toronto: Nelson, Thomson, 2008) p. 328

<sup>98</sup> Dave Gower, “A note on Canadian Unemployment since 1921” in *Perspectives on Labour and Income*, Autumn 1992, Vol. 4, Number 3, Article 3, pps. 1-2.

<http://www.statcan.gc.ca/pub/75-001-x/1992003/87-eng.pdf>

of Statistics declared the a “conservative estimate of the unemployed.... would lie between 600,000 and 700,000.”<sup>99</sup> By 1933, one in seven Canadians – almost 1.5 million people – depended upon government relief payments for survival.<sup>100</sup> Canadians were turning as never before to their governments for help. And, as in all federations, provinces were turning to the central government, desperate for more assistance. Political certainties and social cohesion were teetering – and no one knew how to restore them.

Western societies were evolving with industrialization, urbanization, the shrinkage of so-called extended families as members dispersed, and the increase in life expectancies through improved sanitation measures, public health initiatives and medical advances. When individuals and their families had exhausted their traditional sources of help, they now turned to the state as their only refuge.

The Depression was slowly bringing home the flaws of unbridled capitalism to the battered provinces. Their citizenry needed help that only governments could provide. In the decades prior to that catastrophe, individual provinces had already started to expand their social programs. In 1914, Ontario introduced Workmen’s Compensation, which allowed workers to collect an income when injured on the job. By 1919, six provinces had adopted such legislation. Mothers’ Allowances were introduced in Manitoba in 1916. By 1930, five provinces had adopted this program. In 1927, Ottawa introduced an Old Age Pension that picked up half of the cost of means-tested pensions to Canadians who were seventy and over. The provinces that

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<sup>99</sup> James Struthers, *No Fault of Their Own: Unemployment and the Canadian Welfare State, 1914-1941* (Toronto: University of Toronto Press, 1983) pps. 61-62.

<sup>100</sup> Struthers, p. 91.



agreed to join the pension plan picked up the other half. In 1931, Ottawa changed its contribution to seventy-five per cent of the cost. By 1936, all provinces had joined.

But the Old-Age Pension would mark the limits of reform until World War Two when social cohesion and political stability again became pressing concerns. As Struthers notes, the expansion of social welfare in wartime became possible because the number of people on relief had dropped, poor nutrition among the enlisting soldiers had sparked concerns about children's health, and many experts feared that social disruptions during wartime could disturb reconstruction in peacetime.<sup>101</sup>

The early 1930s were also difficult in Australia. In May 1930, Perth accountant H. K. Watson founded the Dominion League of Western Australia, which called for secession to protest the state's unequal position within the federation. League founders marshaled the political clout of small farmers, sheepherders and gold miners who resented the effect of tariffs on the price of such imports as machinery and consumer goods, and who blamed the Commonwealth Government for their shoddy roads and ports. They were opposed to the protectionist policies that were created to shield the manufacturers in eastern Australia.<sup>102</sup>

Dominion League members wanted to form an independent dominion like New Zealand within the British Commonwealth. State Premier Sir James Mitchell called a plebiscite on secession on the same day as the state election, April 8, 1933. Voting in the plebiscite was compulsory – although voting in the election was not. The result

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<sup>101</sup> James Struthers, *The Limits of Affluence: Welfare in Ontario, 1920-1970* (Toronto: University of Toronto Press, Ontario Historical Studies Series, 1994) pps. 108-109. Struthers writes about Ontario – but those conditions were applicable across the nation.

<sup>102</sup> Russel Ward, *The History of Australia: The Twentieth Century*, 205-206.

was a majority of two to one in favour of secession.<sup>103</sup> Inequality bred dissension. Mitchell's successor arranged for a deputation to petition the British Parliament for an amendment to the Australian Constitution to recognize the secession. The British Government was taken aback. Eventually, in May 1935, a British Parliamentary committee agreed with Commonwealth legal experts that the petition did not qualify for acceptance.<sup>104</sup> Australia had dodged a bullet.

But Western Australia had certainly got the Commonwealth Government's attention. In 1933, in the wake of the secession vote, the federal government created the Commonwealth Grants Commission (CGC) to examine state applications for special assistance. First, the CGC had to devise consistent principles. As a Commission report would later explain, the CGC initially decided that grants should enable "claimant states 'with reasonable effort, to put their finances in about as good order as that of the other states' but they were not aimed at equalising incomes or living standards of individuals in the States."<sup>105</sup> In 1936, in its third report, the Grants Commission would refine that principle to ensure that states had "the amount of help found necessary to make it possible for that State by reasonable effort to function at a standard not appreciably below that of other States."<sup>106</sup> Canada would pay close attention throughout this evolution.

### **The Role of the State in the 1930s**

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<sup>103</sup> Russel Ward, *The History of Australia: The Twentieth Century*, 205-206.

<sup>104</sup> Ward, 206.

<sup>105</sup> *The Commonwealth Grants Commission: The last 25 Years*. (Barton, Canberra ACT: The Australian Government, Commonwealth Grants Commission, 2008) 31.

<sup>106</sup> *The Commonwealth Grants Commission: The last 25 Years*, 31.

In Canada, many factors limited the expansion of the social security system. Some Canadians were concerned that poorer individuals were asking for too much from their governments – even though, in retrospect, they were getting absurdly little. Demands for increased state aid jostled against the lingering characterizations of the poor. Philosopher Nancy Fraser and historian Linda Gordon are blunt: “In the strenuous new culture of emergent capitalism, the figure of the pauper was like a bad double of the upstanding workingman.... Paupers were not simply poor but degraded, their character corrupted and their will sapped through reliance on charity.”<sup>107</sup> Such harsh judgments were also applied to member states in a federation.

Indeed, such stereotypes lingered well into the twentieth century, intersecting disastrously with the structure of federalism itself. Those theoretically tidy compartments of federalism, which were never truly sealed off from each other, became an impediment to support for those people and provinces hit by disastrous economic change. Some provincial governments did not view their shattered citizenry sympathetically. They did not have the money or the inclination to help them. More importantly, it was here that the fiscal inequalities among the provinces became brutally apparent.

The debates became acerbic. Historian Shirley Tillotson notes that discussions about the level of taxation were not just about the defence of specific economic interests “but also about the morality of citizenship.” Surely, Canadians asked each

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<sup>107</sup> Nancy Fraser and Linda Gordon, “A Genealogy of Dependency: Tracing a Keyword of the U. S. Welfare State” in *Signs*, Volume 19, Number 2 (Winter 1994) p. 316.

other, there was a limit to what the state could do without affecting its citizens' moral fibre? Tillotson has traced the complicated relationship between private charities and public policies. By the end of the 1930s, with so little evolution in the safety net through such despairing times, a leading charitable funding organization, the Community Chests, "seemed to have a chance of forestalling the welfare state...and appear as both an alternative to the welfare state and its prototype."<sup>108</sup>

While Canadians debated the proper role of the state, it was the states within the state – the very structure of federalism – that created the most significant impediments to the expansion of social security. Ottawa was cautious about its powers and its purse strings: The economies of the provinces were so unequal that joint action with Ottawa to remedy any social need – with the crucial exception of relief – was literally unthinkable. (Also, the provinces had constitutional control over "eleemosynary institutions," which aided the poor.)<sup>109</sup>

It is significant that no province dared to ask for a specific federal program to remedy fiscal inequality among the provinces during these early decades. That remained inconceivable. Instead they asked for additional grants for unemployment relief or increased subsidies because of fiscal need, usually in economic downturns. Sometimes, they argued – to no avail - that the political clout of other federation partners had relegated them to the role of underdogs. They did *not* address fiscal inequality as a permanent condition within the federation that required a specific ongoing federal program.

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<sup>108</sup> Shirley Tillotson, *Contributing Citizens: Modern Charitable Fundraising and the Making of the Welfare State, 1920-1966* (Vancouver: UBC Press, 2008) 21.

<sup>109</sup> *British North America Act 1867*, clause 92, section 7.

But the Depression did witness the slow growth in demands for federal remedies for the economic collapse. Social groups pushed for assistance – although their voices would remain largely ineffective during most of those terrible years. Provincial governments, however, were becoming increasingly aware of the fiscal inequalities among themselves. The Premiers of the richer provinces of Quebec and Ontario were defensive. The poorer Premiers were distressed – and their very presence at Dominion-Provincial Conferences would unsettle Bennett and then King. They understood that their societies had changed, and their responsibilities to ensure social cohesion and basic survival were greater. And they knew that they would lose power if they could not secure more funds: Their own political futures and the stability of their governments were at risk.

### **R. B. Bennett and the Provincial Premiers**

The Premiers would meet frequently with Bennett during his tenure as Prime Minister – although little was seemingly accomplished. Their first gathering in April 1931 was devoted to discussions about the Statute Of Westminster. That seems jarring. But the Bennett government had appropriated \$20 million for relief and infrastructure projects in 1930-1931, and then extended those provisions for 1931-1932 with such unspecified amounts as “might be deemed expedient for relieving distress, providing employment and maintaining within the competence of

Parliament, peace, order, and good government throughout Canada.”<sup>110</sup> (In the end, Ottawa would spend \$42.7 million on relief that year.)<sup>111</sup>

In April 1932, as the Depression deepened, the First Ministers gathered in Ottawa for closed-door discussions about relief. After the conference, Bennett said that he had spelled out Ottawa’s financial position – it had added \$119 million to the 1931-1932 federal debt – and he declared that the Dominion was “not disposed to assume responsibility for the unemployment problem.”<sup>112</sup> Instead, Ottawa would confine its spending to direct relief in emergency situations such as crop failure. *The Globe* correspondent William Marchington noted that many provinces and municipalities had reached the “end of their tether” – but there was a natural limit to the number of useful public works that could be undertaken. His solution was tough: “No work, no relief.”<sup>113</sup>

Despite Ottawa’s stand, the poorer provinces did not publicly complain. Indeed, wealthy Ontario expressed guarded confidence: Its Attorney General W. H. Price even presumed to speak for the Western Provinces by declaring that they “appeared to be quite optimistic” about the coming harvest and grateful for past help “in their time of need by the Eastern Provinces.”<sup>114</sup> It was a small hint of the growing resentment among the wealthier provinces. Ottawa would eventually relent – and spend \$25.9 million on relief in 1932-1933.

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<sup>110</sup> Survey of Federal Relief Activities Since 1930, Reprinted from *The Labour Gazette*, May 1935, LAC, RG47, Volume 60, File Conferences 1935. p. 2.

<sup>111</sup> *The Labour Gazette*, p. 24

<sup>112</sup> William Marchington, “Joint Public Works As Relief Measures To Be Discontinued?” in *The Globe*, Monday, April 11, 1932. p. 1.

<sup>113</sup> Marchington, p. 2.

<sup>114</sup> Marchington, p. 2.

In January 1933, at another Dominion-Provincial Conference, the rifts between the richer provinces of Ontario and Quebec and the poorer provinces, especially the Prairie Provinces, were deepening. The delegates emerged with the recommendation that federal assistance to the provinces for direct relief should continue because of the “unprecedented economic conditions.” But there were no ringing *public* calls at this closed conference for additional federal help. “While some provinces desire an increase in the proportion [of relief] contributed by the Dominion, other provinces are satisfied with the present division and do not feel that an increase should be asked for.”<sup>115</sup> Although *The Globe’s* William Marchington reported that the Western Provinces wanted more federal funds for relief, there were no *public* complaints against the richer provinces.<sup>116</sup>

The public silence ensued because the First Ministers were effectively deadlocked – and the poorer regions hoped to get more aid through private diplomacy. They also could not agree on constitutional changes that would establish federal Unemployment Insurance. (Quebec and Ontario withheld consent.)<sup>117</sup> Ultimately, Ottawa contributed \$30.7 million to relief in 1933-1934.

The dissension between the richer and the poorer provinces would remain unresolved at the next Dominion-Provincial Conference in January 1934.

### **Nova Scotia Premier Angus L. Macdonald and the Maritime Plight**

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<sup>115</sup> Resolutions of Dominion-Provincial Conference, Ottawa, January 17-19, 1933. LAC, RG47, Volume 67, p. 1.

<sup>116</sup> William Marchington, “Ottawa Parlay Grapples With Relief Problem” in *The Globe*, Wednesday, January 18, 1933. p. 1.

<sup>117</sup> William Marchington, “Insurance Snag” in *The Globe*, Thursday, January 19, 1933. p. 2.

The best of the Depression-era Premiers understood that the only way to survive in this challenging new world was to restructure the federation, formally or informally, to shuffle the responsibilities or the revenues to accommodate pressures that the Fathers of Confederation did not anticipate. Perhaps it is not surprising that a successor of Joseph Howe – who was depicted as the new Joseph Howe – would become one of the most remarkable advocates for a revitalized federalism.

Liberal Angus L. Macdonald won power in August 1933 as a politician who “did not favour an idle state; rather he supported government social-insurance programs to protect the weak and improve the general welfare.”<sup>118</sup> But first, Macdonald needed the money to pay for those programs – or he needed to induce the federal government to accept responsibility for his province’s ills. On the eve of the Dominion-Provincial Conference in mid-January 1934, Macdonald joined a preliminary meeting of the Maritime Premiers in Montreal. The three Premiers – New Brunswick’s Leonard Tilley (the son of Samuel Leonard Tilley), Prince Edward Island’s William MacMillan and Macdonald – penned a letter asking Bennett to set up a Royal Commission to consider “a revision of the financial arrangements between the Dominion Government and the Maritime Provinces.”<sup>119</sup>

Macdonald reiterated the trio’s pleas for a remedy for fiscal inequality at the Conference itself: Ottawa should reopen the question of subsidies in line with the recommendations of the Duncan Report: “He [Macdonald] also asked that a

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<sup>118</sup> T. Stephen Henderson, *Angus L. Macdonald: A Provincial Liberal* (Toronto: University of Toronto Press, 2007) 33.

<sup>119</sup> Letter of the Three Maritime Premiers to the Prime Minister of Canada, January 16, 1934 as quoted in the *Report Of The Royal Commission On Financial Arrangements Between The Dominion And The Maritime Provinces*. (Ottawa: J. G. Patenaude, Printer To The King’s Most Excellent Majesty, 1935)vi/



commission representative of the Dominion and the provinces be appointed to explore the possibility of a re-arrangement of the taxation sources in view of the dire necessity of all the provinces finding new sources of revenue.”<sup>120</sup> *The Globe* could not resist the temptation to add dourly: “Their [Maritime] requests are based upon moral rather than legal grounds.”<sup>121</sup> And, given the depths of the Depression, moral appeals remained difficult for the other Confederation partners.

The Conference proceedings were more devoted to the deepening fiscal plight of the three Prairie Provinces and British Columbia. *Winnipeg Free Press* correspondent Grant Dexter privately confirmed to editor John Dafoe, the man he called “Chief,” that Dafoe’s hunch was correct: Westerners were angry. “The western delegates are quite willing to talk and the belligerent attitude you noted in [Manitoba Premier John] Bracken is very much in evidence among the others. I do think there will be a show-down and, perhaps, some serious fighting.”<sup>122</sup>

A day later, that distress was publicly confirmed. “West’s Dire Straits Forcibly Presented At Premiers’ Parlay,” trumpeted *The Globe*’s headline for January 18, 1934. “Default on Bond Interest Faces Prairie and Coast Provinces Unless Federal Aid Is Forthcoming – Dominion Hopes to Stimulate Construction Industries.”<sup>123</sup> A day later, Prime Minister Bennett pointed out that the Dominion Government would

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<sup>120</sup> “Ask Provinces To Look After Own Financing: Desire of Federal Government Is to Shift Responsibility Back Gradually” in *The Ottawa Journal*, Thursday, January 18, 1934. p. 2.

<sup>121</sup> “Commission May Untangle West’s Finance: Seek Cause And Cure Of Fiscal Muddles In Four Provinces: Maritime Rights Also Reopened” in *The Globe*, Thursday, January 18, 1934. p. 1

<sup>122</sup> *Winnipeg Free Press* Ottawa correspondent Grant Dexter to *Winnipeg Free Press* editor John Dafoe, January 17, 1934. John Dafoe Fonds, University of Manitoba Archives, Box 8, Folder 1. pps. 1-2.

<sup>123</sup> Headlines in *The Globe*, Thursday, January 18, 1934. p. 1.

have a deficit of more than \$100-million in the current fiscal year. But the case for the West was grim: “under the stress of circumstances they have curtailed expenditures to the limit, that they cannot make further cuts without sacrificing their schools, hospitals or other essential services. Moreover, they have taxed their people until they have been threatened with a taxpayers’ strike.”<sup>124</sup>

All Premiers finally recognized that the fiscal inequalities among the provinces were wrenching – and the situation was dire. Western resource control had not brought instant riches – partly because the administrative costs were high. Alberta’s net gain would “not exceed \$200,000 annually during the first five years of the 1930s.”<sup>125</sup> By the end of the day, Ottawa agreed to continue its aid to the western provinces with the formal blessing of *all* participants, including wealthier Quebec and Ontario. Special ad hoc subsidies to alleviate such desperate inequalities were becoming the norm in troubled times. But there was no acceptance of a general principle to provide aid, no formula, and no impartial adjudicator to determine the amount of the assistance.

In the midst of those extraordinary tidings from the West, Nova Scotia’s Macdonald somehow grabbed the spotlight, however briefly. He reiterated the pleas in the Maritime Premiers’ letter at the Conference itself. Ottawa should reopen the question of subsidies in line with the recommendations of the Duncan Report: “He [Macdonald] also asked that a commission representative of the Dominion and the

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<sup>124</sup> “All Governments Meet Obligations, Premiers Decide: Permit No Default in Canada, Determination As Parlay Ends Against Western Probe” in *The Globe*, Saturday, January 20, 1934. P. 1.

<sup>125</sup> *Eric J. Hanson’s Financial History of Alberta: 1905-1950*. eds. Paul Boothe and Heather Edwards. (Calgary: University of Calgary Press, 2003) 97.

provinces be appointed to explore the possibility of a re-arrangement of the taxation sources in view of the dire necessity of all the provinces finding new sources of revenue.”<sup>126</sup> Bennett guardedly agreed to set up a subcommittee on Maritime Rights that would include an examination of tariff adjustments. Nine months later, on September 13, 1934, the Prime Minister set up a three-person Royal Commission under the chairmanship of former finance minister Sir Thomas White to deal “as speedily as possible” with the Duncan Commission’s call for a revision of the financial arrangements.<sup>127</sup>

Macdonald could not wait for Bennett to examine Ottawa’s subsidies to the Maritimes and the reallocation of revenues and responsibilities. On July 27, 1934, he appointed his own three-person Royal Commission Provincial Economic Inquiry [sic] under the chairmanship of Leeds University economist John Harry Jones. The two other members were former Nova Scotia MP Alexander S. Johnston and economic geographer Harold Innis.

Their mission caught the fiscal zeitgeist of their Maritime age. They were to examine the effect of federal fiscal and trade policies on the province’s economic life. They were to scrutinize “the adequacy of present financial arrangements between the Dominion of Canada and the Province of Nova Scotia in the light of the powers, obligations, and responsibilities of the Dominion and Province, respectively, under

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<sup>126</sup> “Ask Provinces To Look After Own Financing: Desire of Federal Government Is to Shift Responsibility Back Gradually” in *The Ottawa Journal*, Thursday, January 18, p. 2.

<sup>127</sup> *Report Of The Royal Commission On Financial Arrangements Between The Dominion And The Maritime Provinces*, vi.

the Federal constitution”; and they were free to look at any other matter affecting the province’s economic welfare or its relations with the Dominion.<sup>128</sup>

Three months later, in early December, the Jones Commission issued a complex and occasionally disappointing report. Three main factors had contributed to the province’s “relative economic decline: tariff policies, transportation costs, and centralized, protected industries.”<sup>129</sup> What followed was a thorough examination of the problems – but there were no solutions to catch the dispirited public’s fancy.

In the end, Innis did not sign the main report – but he did issue a so-called 100-page Complementary Report that aimed to strengthen the main report through its “emphasis on the national policy in the broad sense rather than in the narrow fiscal sense.”<sup>130</sup> (Indeed, the commissioners were pleased that his more historical approach resulted “in the same general conclusions and recommendations.”)<sup>131</sup>

Innis argued that two basic trends dominated Canada’s economic history: centralization in the continental area and decentralization in the Maritimes. “The St. Lawrence drainage basin has extended its influence to the Pacific coast and to the Atlantic Coast [sic],” he declared. “In its extension, centralization has become increasingly marked and has been evident in transportation and banking

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<sup>128</sup> Province of Nova Scotia, *Report of the Royal Commission: Provincial Economic Inquiry*. (Halifax, N. S.: Provincial Secretary, King’s Printer, 1934) 4.

<sup>129</sup> T. Stephen Henderson, *Angus L. Macdonald: A Provincial Liberal*. 63.

<sup>130</sup> “Complementary Report of Dr. Harold Innis, Halifax, October 24, 1934” in Province of Nova Scotia, *Report of the Royal Commission: Provincial Economic Inquiry*. (Halifax, N. S.: Provincial Secretary, King’s Printer, 1934) p. 131.

<sup>131</sup> Province of Nova Scotia, *Report of the Royal Commission: Provincial Economic Inquiry*. (Halifax, N. S.: Provincial Secretary, King’s Printer, 1934) p. 25.

particularly.”<sup>132</sup> Worse, Central Canada’s high tariffs to protect its manufactured products had hampered the Maritime reliance on the export of raw materials. During the Depression, “the burden of railway rates and customs duties became increasingly severe.”<sup>133</sup>

The University of Toronto academic denounced “the callousness, lack of sympathy, and general disregard of broad policy, which has characterized federal supervision” of the Maritimes.<sup>134</sup> In compensation for the rigidities of Ottawa’s centralization, the federal government should adopt a regional development policy. Perhaps, *as in Australia*, Ottawa could assume the debts of the weaker states, especially the railway debts. It should also better coordinate its activities with those of the provinces. His conclusion was blunt: “Compensation is not enough.”<sup>135</sup>

The Jones report, including Innis’ complementary report, made little impression on Central Canada. As *The Globe* commented glumly: “The unsatisfactory feature of the findings – but perhaps the inevitable one – is that most of Nova Scotia’s troubles lie beyond her own control.”<sup>136</sup> The newspaper urged other provinces to undertake similar studies to examine the bases on which subsidies were granted to them – and demand revisions if necessary. The strains within the federation were becoming a threat to its unity. But there seemed no remedy for the general passivity about fiscal inequality.

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<sup>132</sup> “Complementary Report of Dr. Harold Innis, Halifax, October 24, 1934” in Province of Nova Scotia, Report of the Royal Commission: Provincial Economic Inquiry. (Halifax, N. S.: Provincial Secretary, King’s Printer, 1934) p. 151.

<sup>133</sup> Report of the Royal Commission, p. 152.

<sup>134</sup> Report of the Royal Commission, p. 225.

<sup>135</sup> Report of the Royal Commission, pps. 225-226.

<sup>136</sup> “The Ills Of A Province” in *The Globe*, Monday, December 10, 1934. P. 6.

## Two Maritime Calls For Action

Predictably, no immediate action ensued. But attached to the report was an appendix – “Economic Inquiry – Financial Relations” – that a relatively junior Dalhousie University political scientist, Robert Alexander MacKay, had submitted to the Commission on September 26, 1934. The paper addressed the fiscal inequalities within the federation, starting with the province’s entry into Confederation, before proceeding to elaborate upon the conclusions of the Duncan Commission.

(Aggrieved Australians would have felt thoroughly at home reading it.)

MacKay would continue to address this topic throughout the next six years, notably as a member of the Royal Commission on Dominion-Provincial Relations. But his 25-page report on the province’s financial relations must have raised eyebrows in Ottawa. MacKay concluded that the Dominion should increase its subsidies to the provincial governments on the basis of “fiscal need.”<sup>137</sup> Struggling governments should have a reasonably efficient administration; they should perform functions that “are not duly in advance or more extensive than those of other Provinces”; and they should levy a “fair burden of taxation.”<sup>138</sup>

If a province passed those tests, “the Dominion is clearly under obligations to come to the aid of the Provinces on the ground of their fiscal needs because of the national interest in the due performance by the Provinces of their constitutional

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<sup>137</sup> “Economic Inquiry – Financial Relations” in Province of Nova Scotia, Royal Commission Provincial Economic Inquiry: Appendices) Halifax, N. S.: Provincial Secretary, King’s Printer, 1934) 36.

<sup>138</sup> Royal Commission Provincial Economic Inquiry. 37.

duties.”<sup>139</sup> In effect, McKay saw inequality as a condition that could imperil the federation – and concluded that it was in the federation’s self-interest to remedy it.

As well, MacKay argued that his province “may have a claim for revision of subsidies if it be established that the Provincial sources of revenue have been impaired by Dominion policies,” notably federal tariff and income tax policies.<sup>140</sup> MacKay did not assert that this impairment had occurred. But if the facts showed that federal policies had adversely affected the province, “Nova Scotia, it seems clear, has quite as good a claim for compensation by way of subsidies as had the western provinces for federal control of their lands or New Brunswick for loss of its right to levy export taxes on timber.”<sup>141</sup> MacKay would later move away from that early claim for compensation for the inequities caused by federation.<sup>142</sup>

Finally, and perhaps most astonishingly, MacKay lamented the lack of “a suitable means for adjusting subsidies from time to time in accordance with the fiscal needs of the Provinces.” Instead, any adjustments had been left to Dominion whims. “In the light of the history of subsidy questions it now seems clear that *the principle of equality of treatment as between the Provinces is subordinate to the principle of fiscal need.*”<sup>143</sup> The future member of the Royal Commission on Dominion-Provincial Relations was quietly building a case for equalization payments – decades ahead of

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<sup>139</sup> Royal Commission Provincial Economic Inquiry, 37.

<sup>140</sup> Royal Commission Provincial Economic Inquiry, 39.

<sup>141</sup> Royal Commission Provincial Economic Inquiry, 40.

<sup>142</sup> **He was a commissioner with the Royal Commission<sup>2</sup> on Dominion-Provincial Relations which rejected that approach. See chapters three and four.**

<sup>143</sup> Royal Commission Provincial Economic Inquiry, 37. My italics.

the formal integration of this conceptual approach into fiscal and social policy within the federation.

MacKay was also pondering the fundamental flaw in the federation that Australian and other Canadian experts could not resolve satisfactorily: how could the poorer provinces be truly equal to the richer provinces if they could not afford to pay for similar services? Although Australia had already implemented a remedy, the question would plague both federations for decades.

Two months after the Jones Report on Nova Scotia, the federal White Commission reported, less than five months after it had started its hectic examination of the Maritime Provinces. Premier Macdonald had told this Commission that “financial necessity” was the basis of all federal revisions of the subsidy since Confederation. The Commission firmly rejected that assertion, arguing that to accept that claim “would inevitably lead to conditions harmful and dangerous in the extreme to both the Dominion and the Provinces themselves.... The Government of a Province [could then] demand from the Dominion Treasury any sums necessary to meet recurring deficits...Power to spend must entail responsibility for expenditure.”<sup>144</sup>

Still, the report admitted that the three provincial governments had been “frugal” – and that they were handicapped by their “isolated economic position with respect to the rest of Canada, a stationary or declining population and less per capita wealth

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<sup>144</sup> *Report Of The Royal Commission On Financial Arrangements Between The Dominion And The Maritime Provinces.* (Ottawa: J. G. Patenaude, Printer To The King's Most Excellent Majesty, 1935) 6.



and taxable capacity than most if not all of the other provinces.”<sup>145</sup> It added sagely: “Increase of money grants to individual Provinces will not alone bring about prosperous conditions within their areas although it may indirectly assist by promoting, through educational and public welfare services, economic efficiency or by reducing taxation within the Province and thus lessening the burden upon trade and industry.”<sup>146</sup> In effect, some form of equalization would benefit all Canadians.

The White Commission seconded the Duncan Commission’s notion that it was not possible to ensure that every region of the country benefited equally from federation. “But *reasonable balance* is within accomplishment if there be periodic stocktaking.”<sup>147</sup> Accordingly, it recommended an increase in the subsidies for all three Maritime Provinces “based upon broad and general considerations of fairness and equity...and to the economic disadvantages to which the Maritime Provinces are particularly subject.... Such claims are by their nature not susceptible of detailed appraisal by any process of mathematical calculation as the basis for accurate comparison is wanting on account of the diversity of conditions and circumstances of development of the several Provinces.”<sup>148</sup>

This was an argument based upon the federation’s moral obligation to its poorer members – but it was also a hardheaded observation. The Bennett Government complied, increasing Prince Edward Island’s annual payments from \$125,000 to

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<sup>145</sup> *Report Of The Royal Commission On Financial Arrangements*, 12.

<sup>146</sup> *Report Of The Royal Commission On Financial Arrangements*, 20.

<sup>147</sup> Quotation from the Duncan Commission, 20. My italics.

<sup>148</sup> Duncan Commission, 20.

\$275,000; New Brunswick's went from \$600,000 to \$900,000; and Nova Scotia's payments from \$875,000 to \$1.3-million.<sup>149</sup>

That should have marked a pause in Premier Macdonald's mission. He had won. But one of the three members of the White Royal Commission filed a dissenting report. The Chief Justice of the Prince Edward Island Supreme Court, John Alexander Mathieson, who was a former P. E. I. Premier, filed a memorandum of dissent because of White's disregard for the varying fiscal needs of the provinces. The three Maritime Provinces, Mathieson argued, had been treated with "less justice and consideration" than the Western Provinces. There had been no equality of treatment since the early days of Confederation. "One of the major problems facing Canada today is the devising of some general plan for the adjustment of Dominion and provincial financial relations," Mathieson stated firmly. "The practice which has existed from early days of dealing with single Provinces or groups of Provinces without due regard to the interests of all, may bring about a condition of grave unrest not free from danger to Canadian unity."<sup>150</sup> As I will show, Macdonald would remember that admonition in future years.

## Conclusion

Most Depression-era politicians could not deal with such prescient warnings about the need for a general formula to remedy fiscal inequality among the provinces for the sake of social cohesion and political stability. Ottawa was too

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<sup>149</sup> "Review of Dominion Provincial Financial Arrangements," John James Deutsch Fonds, n. name, revised in 1955, Queen's University Archives, Box 81, File 770. 8.

<sup>150</sup> "Review of Dominion Provincial Financial Arrangements," John James Deutsch, 24.

worried about the ongoing impatience within the Maritime provincial governments and the deepening crises within the Western provincial governments, which were flirting with bankruptcy. But those Maritime reports with their warnings and their desperate hopes would set the stage for the terrible last half of the 1930s. Then, the Wisdom of Solomon along with the energy and strategy of Frederick the Great, which Sir Joseph Howe had once deemed essential to the survival of a federation, would prove elusive.

## CHAPTER TWO: The Poorer Endanger The Richer, 1934-1937

By the middle of the 1930s, federal politicians and bureaucrats could see that the federation was not working for Canadians or their governments. Many hoped that Ottawa could somehow maintain social peace on the treacherous path through the 1930s. Others could see that the federation had to rebalance its revenues and responsibilities or it would not survive. The principle problem was the fiscal inequality among provincial governments and their municipalities, which were the constitutional creatures of the provinces. The profound and baffling Depression compounded those woes. “No other industrial downturn in history was so massive or so persistent,” observe Kenneth Norrie, Doug Owram and J. C. Herbert Emery in *A History of the Canadian Economy*.<sup>1</sup> Commodity markets dwindled. Trade and credit contracted.

The structure of Canada’s federation was not designed to handle such difficult circumstances. The federal government was *not* responsible for social programs – although it had the lion’s share of the revenues. The provincial governments were saddled with social responsibilities – but many could not even pay their share of relief payments without driving themselves further into debt. Some were teetering on the brink of bankruptcy as their export markets dwindled. Many nurtured resentments against Ottawa and their fellow provinces, which inadvertently strengthened their political identities as “Haves” and “Have Nots.” The anxiety was

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<sup>1</sup> Kenneth Norrie, Douglas Owram and J.C. Herbert Emery, *The History of the Canadian Economy*, fourth edition. (Toronto: Nelson, Thomson, 2008) 317.

pervasive. Conservative Prime Minister R. B. Bennett became concerned that a provincial bankruptcy would affect the credit rating of the federal government, driving up interest costs on Ottawa's borrowing, eating into funds that his government needed for its own programs.

There had to be an answer. Retrospectively, it might be difficult to relate to the perceptions and complexities of the inequalities among the political players in the 1930s. Politicians and bureaucrats spent months pondering the intricacies of their finances, their constitutional powers and their fragile social supports. But these were desperate times – and any solutions beyond ad hoc subsidies were not readily apparent. The senior bureaucrats first looked to other federations – to the United States, to Argentina and *especially* to Canada's sister Dominion Australia – to figure out how they handled inequalities among states.

In the mid-1930s, they singled out the Australian "Loan Council" mechanism as worthy of study: In 1929, the Commonwealth Government had taken over all state debts, and then put responsibility for all future federal or state borrowings under the Council. Apprehensive Bank of Canada and Finance Ministry officials presented that option to their political masters who suggested it to the provinces. Initially, federal officials and politicians refused to accept the horrified reactions of many provincial premiers as rejections. Then, they realized that they had luckily dodged the risks of assuming responsibility for provincial debt and borrowing. Finally, they weighed plans that would preserve the federation in the short term with ad hoc grants and loans – *and* in the longer term. In particular, key bureaucrats wanted a

Royal Commission on *Re-confederation*. And every step of the way – from the Loan Council to the Commonwealth Grants Commission – the model was Australia.

All federations were groping for ways to stay together. Ad hoc subsidies were no permanent solution to the ever-widening inequalities among states as they were called in Australia or provinces in Canada. The richer provinces were resentful of the eleventh-hour funding for the poorer provinces that their taxpayers unwittingly financed. The poorer ones could never get enough money – but the pleading, the trips to Ottawa, the ritual of polite-but-desperate-or-disdainful letters was exhausting. Social cohesion and political stability were at risk – because there were no mutually acceptable fiscal mechanisms such as equalization to calm the unrest.

No one knew if the counter-cyclical prescriptions of British economist John Maynard Keynes would work: The politicians and bureaucrats at the very top of the Ottawa pecking-order could not be tempted to try them – although some were familiar with his work.<sup>2</sup> Finance Ministry special assistant W. A. Mackintosh would lead a delegation to London in November 1942 to discuss Keynes' proposal for an international central bank to clear payments, which the individual central banks would establish.<sup>3</sup> But Canadian officials would not discuss his insights in depth with

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<sup>2</sup> Hugh Grant, *W. A. Mackintosh: The Life of a Canadian Economist* (Montreal & Kingston: McGill-Queen's University Press, 2015) pps. 145-151; Robert A. Wardhaugh, *Behind The Scenes: The Life and Work of William Clifford Clark* (Toronto: University of Toronto Press, 2010) pps. 62,122. Robert Skidelsky, *Keynes and Canada*, Toronto Seminar, Tuesday November 6, 2001.  
<http://www.skidelskyr.com/print/keynes-and-canada>

<sup>3</sup> Hugh Grant, *W. A. Mackintosh: The Life of a Canadian Economist*, p. 240. "The Keynes Plan" in *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation*, volume three, Documents, ed. J. Keith Horsefield (Washington: International Monetary Fund. 1969) p. 3.

him in Ottawa until 1944-1945.<sup>4</sup> In fact, economists J. Stephen Ferris and Stanley L. Winer date the acceptance of Keynesian thought in Canada to the White Paper on Employment and Income in 1945 – and that was “aimed at addressing the perceived electoral strength of the Co-operative Commonwealth Federation (CCF).”<sup>5</sup> It was a relatively late conversion.

Even in the 1930s, however, the link between funds for poor governments and the provision of social services for poor citizens was clear. Premiers from the poorer provinces complained that they could barely afford relief payments, let alone find money for proper schools and hospitals. True, those governments were concerned about how to perform their *basic* government functions in unruly times. They feared protests. And they certainly had no notion of expanding social programs that they could not afford. But reforming premiers such as Nova Scotia’s Angus L. Macdonald were also deeply worried – as I will show – about their citizens’ social and physical wellbeing. They, too, watched Australia, where state-centred approaches were far more advanced.

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<http://imsreform.imf.org/reserve/pdf/keynesplan.pdf>

<sup>4</sup> Skidelsky, p. 1.

<sup>5</sup> J. Stephen Ferris and Stanley L. Winer, *Searching for Keynes: An Essay on the Political Economy of Fiscal Policy, With Application to Canada, 1870-2000*. (CESIFO Working Paper Working Paper No. 1016. Category 2: Public Choice, August 2003, Revised June 2004. p. 5. And Hugh Grant, *W. A. Mackintosh: The Life of a Canadian Economist*, p. 17.

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=437403](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=437403)

Indeed, Australia set an innovative example with its Loan Council to consolidate state debts and its Commonwealth Grants Commission to distribute federal funds through a neutral commission to poorer states. Equalization as an approach would be hatched in Australia – despite the major differences in their federal constitutions and, eventually, their formulas. But it would be decades before Ottawa would accept the Australian idea of a permanent grants program, which doled out cash through a neutral formula with no strings attached, as the solution to inequality among the provinces. First, the federation had to figure out how it had evolved during the sixty years since Confederation.

### **The Canadian-Australian Contacts Continue**

The Canadian-Australian axis continued throughout the Depression. The two nations watched each other closely on so many common issues, including their efforts to implement Unemployment Insurance. In late 1933, the Australians told Canberra about Prime Minister Bennett's promise of an "economically independent" central bank, along with his "pride in the fact that the financial credit of Canada stood unchallenged."<sup>6</sup> (Australia had vested its Commonwealth Bank of Australia with central bank powers such as the ability to issue notes in the 1920s.) Most importantly, the financial disputes between the provinces and Ottawa – and among the provinces themselves – preoccupied Canberra.

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<sup>6</sup> L.L.O. Note – 15.12.33. "The Central Bank for Canada" in National Archives of Australia, Canada – Internal Politics, Series number A981, Control Symbol CAN 24, Part 1, Barcode 173375, unnumbered pages within file.



Canada, in turn, watched Australia. As I have indicated, Bennett held gatherings with the provinces during every full year of his mandate – in 1931, 1932, 1933 and 1934. Those meetings reviewed the grave need for continued federal payments for relief – and the growing gulf between the richer and the poorer provinces. By the January 18-19, 1934 Conference, as I have shown in Chapter One, even the wealthier provinces finally accepted that Ottawa *had* to help the poorer provinces in the West and, later, in the East or their own fiscal position could be at risk through defaults.

But there was an important theme, largely overlooked at the time and certainly not mentioned to the press or the public, running through that 1934 conference: the situation in Australia. Even *Winnipeg Free Press* Ottawa correspondent Grant Dexter, who had extensive off-the-record access to politicians and bureaucrats, did not mention Australia in his chatty behind-the-scenes seven-page letter to his editor John Dafoe, on January 17, 1934.

Australia had not grabbed the public imagination. But senior bureaucrats were finally probing in depth their fellow Dominion's approach to the Depression. The federal package for Bennett's final Conference in 1934 included a 22-page academic essay on how Australia had reduced real wages, slashed government expenditures, cut interest charges, expanded central bank credit to finance deficits and loans for necessary works, and depreciated its currency. "I do not suggest that Australian policy is the only way out," wrote University of Melbourne economist Douglas Copland, "but...it has proved to be a way out at a time when less comprehensive action has not proved so successful in some countries...The secret of Australia's

attack on the depression lay in the combination of a courageous banking policy with drastic reductions in costs and government expenditure.”<sup>7</sup>

There was more. The provincial delegates to that January 1934 conference also received an eleven-page federal memo on the consolidation of debts in Australia and the establishment of the Australian Loan Council, tracing the Commonwealth’s gradual approach to debt control from the first voluntary measures in 1924 to the formal constitutional adoption of the Council in 1929.<sup>8</sup> Ottawa was clearly looking to its fellow Dominion for answers. After four full years of Depression, the federal government wanted to ease the debt loads of the poorer provinces, which could barely afford basic relief, let alone the interest on their debts. Unfortunately, the ingenious Australian solution to inequality would not be an easy sell to Canada’s suspicious provinces – especially the “Have” ones. Those suggestions went nowhere.

Remarkably, the Australians still viewed the Conference as a sign of growing Dominion-Provincial agreement on the tricky issue of fiscal inequality among the member states. On January 26, 1934, diplomats reported to Canberra that the five eastern provinces had passed a resolution at that Conference, “expressing appreciation of the difficulties of the grain-growing provinces of the west, and waiving objections to the continuation of the Federal loan policy.” Bennett, they added, had vowed to keep financing the western provinces – and to adopt a large

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<sup>7</sup> University of Melbourne economist Douglas Copland, “Economic Adjustment in Australia,” *Lloyds Bank Monthly Review*, November 1933, LAC, C-1-4, Correspondence and Proposals for Discussions 1934. RG 47, Volume 67. 1.

<sup>8</sup> “Commonwealth of Australia: Consolidation of Debts of Commonwealth and its constituent States and Establishment of Australian Loan Council,” LAC, C-1-4, Correspondence and Proposals for Discussions 1934. RG 47, Volume 67. Pgs. 1-11.

public works policy.<sup>9</sup> Presumably, Australian politicians took comfort from the news that their Dominion's Depression-era misery had company. But, by then, Australia also had the Commonwealth Grants Commission, which would go a long way toward easing that nation's fiscal inequality among states on a formal basis through annual non-conditional grants.

Both nations were somehow coping with the strains on their societies – and their governments. Barely. Their newspapers were bewildering pastiches of vanishing lifestyles and grim realities. But governments dominated the news in Canada as they did in Australia – if only because they were looked upon as the main agents of change in desperate times. The gap between richer and poorer governments could be seen at a glance. Ontario Premier George Henry announced that his province's 1933 year-end surplus was \$476,000 instead of the anticipated deficit of nearly \$3-million. (The fiscal year was 1933-1934.) "It is largely the result of economy without impairment of efficiency in service," lauded *The Ottawa Journal*.<sup>10</sup>

In contrast, the Dominion Government exited 1933 with a shortfall of \$100-million, which was "not something for which the Government can be blamed." The newspaper summed up the nation's plight: "The Government has cut controllable expenditure to the bone; is running the country practically as cheaply as it was run before the war, this despite more services, a greatly increased interest overhead. What it couldn't avoid – no Government could – was the expenditure that had and

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<sup>9</sup> L. L. O. Note – 25- 1-34. "Finance" in National Archives of Australia, Canada – Internal Politics, Series number A981, Control Symbol CAN 24, Part 1, Barcode 173375, unnumbered pages within file.

<sup>10</sup> "Public Finance" in *The Ottawa Journal*, Friday, January 5, 1934. p. 8.

has to be made for relief, the losses of the Canadian National [Railway], the tremendous curtailment of revenues.”<sup>11</sup>

Political scientist Robert M Campbell does not view those deficits as Keynesian:

The idea that fiscal policy could aim at increasing the level of demand or employment had never taken hold in the government's policy circles [in the 1930s]. Instead, fiscal policy during the Depression aimed at preserving the integrity of the financial system. Governments acted to minimize or eliminate the budget deficits which developed as a result of the weakening of economic activity. The federal government's expenditures grew automatically, as a result of increased spending on relief. On the other hand, less tax revenue was being generated, as a result of declining incomes and employment....[D]eficits in the 1930s were unintentional, reflecting declining revenues, and governments were encouraged by the business and financial community to control or eliminate them.<sup>12</sup>

Bennett's deficits were reluctant. But they were a *very necessary* concession to his turbulent times.

### **Year-To-Year Survival On An Ad Hoc Basis**

Ottawa was siphoning money into the provinces on an ad hoc basis. A 27-page Department of Labour publication in 1935 itemized the numerous federal disbursements under relief legislation: They amounted to \$161 million between 1930 and February 1935 – along with \$81.8 million in loans and advances.<sup>13</sup> The payments and the programs varied quite drastically among provinces – as Ottawa responded to different needs. But it was a lot of money: In his budget in mid-April

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<sup>11</sup> “Public Finance” in *The Ottawa Journal*.

<sup>12</sup> Robert A. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada 1945-1975* (Toronto: Broadview Press, 1987) p. 11.

<sup>13</sup> “Survey of Federal Relief Activities Since 1930” in *The Labour Gazette*, May 1935. LAC, RG47, Volume 60, File Conferences, 1935. p. 24.

1934, Finance Minister Edgar Rhodes declared that tax revenues had netted \$272.9 million in 1933-1934 – but his government had spent \$406 million.<sup>14</sup> Relief and other loans and advances amounted to hefty tabs. As a later federal memorandum would outline, Ottawa's contribution to relief payments and public works projects – which was in addition to subsidies - was a seemingly never-ending expense and a huge strain on the Treasury during those years:

By far the most significant payments to the provinces were made to assist in the provision of relief during the depression. While refusing to accept constitutional liability for relief the Dominion early recognized that the financial burden was of a magnitude far in excess of the capacity of at least six of the provinces. Under annual Dominion relief acts assistance was given provincial and municipal governments on a variety of bases and for a variety of purposes. During the first three or four years the Dominion paid approximately one-third of the cost of total relief, the provinces and municipalities sharing the balance in about equal proportions. The Dominion also carried on a program of public works and other projects of direct assistance. Following August, 1934, the Dominion adopted a more pragmatic approach and granted money on a monthly basis which varied in amount with seasonal and other requirements.<sup>15</sup>

But even that pragmatic approach to varying needs did not end Ottawa's assistance. In addition to its contributions for relief in all provinces, the federal government also made "substantial loans for relief and other purposes to the Prairie provinces and British Columbia. In all these amounted to about \$175-million."<sup>16</sup> This figure did not include the later payments that would be made between 1937 and 1941 to the desperate Prairie Provinces – when the situation became even worse.

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<sup>14</sup> "The Budget," editorial in *The Globe*., Thursday April 19, 1934. p. 6.

<sup>15</sup> "Review of Dominion Provincial Financial Arrangements," John James Deutsch Fonds, n. name, revised in 1955, Queen's University Archives, Box 81, File 770. 8-9. My italics.

<sup>16</sup> "Review of Dominion Provincial Financial Arrangements," 9.

The Great Depression underscored the inability of the federation to cope with such pressing financial needs. Ottawa had to assist every province with relief – but especially the poorer ones. But it could not, and almost certainly would not, assume constitutional responsibility for the provision of public relief. Without a system of equalization – of regular payments to the provinces that were calculated using an accepted formula that could take account of the varying fiscal circumstances in each province – the provinces were left to rely on federal goodwill, whims, their regular subsidies and political calculation. Their societies were fraying.

Their citizens wanted answers – or they would switch their political allegiance, perhaps to the Co-operative Commonwealth Federation, which farm and labour leaders along with academics had founded in 1932. On the eve of the Depression, Ottawa had transferred \$16.5-million in statutory subsidies, grants and conditional subsidies to the provinces. By 1934, that number was \$55.9-million. A year later, it was \$74-million.<sup>17</sup> And the provinces were still scrambling for funds. What had barely worked at the turn of the century was now an anachronistic approach to the needs of a modern federation – as Australia was demonstrating.

### **The Bureaucrats Search For A Better Way**

Senior Finance Ministry bureaucrats scrounged for ideas. On January 5, 1935, Deputy Finance Minister W. C. Clark sent a memo to Bennett's political advisor and speechwriter R. K. Finlayson, outlining his suggestion of a three-to-five-year federal

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<sup>17</sup> Thomas J. Courchene, *Equalization Payments: Past, Present and Future*. (Toronto: Ontario Economic Council, Special Research Report, 1984) pps. 16-17.

guarantee for provincial loans. The idea was that the security of a federal guarantee would allow Western Provinces, including British Columbia, to lower their interest costs – and still sell their bonds. “This would obviously improve very considerably the current budgetary position...It would also improve enormously the credit of each province with its bank and with the public; indeed, it might make it possible for the provinces to finance all or a considerable portion of their unemployment relief expenditures without coming to us.”<sup>18</sup>

There could be a hefty price, however, for this putative remedy for fiscal inequality. As Clark explained, that could include: “Probably, one: an agreement on the part of the province not to issue any new loans without approval of the Governor of the Bank of Canada and, possibly, two: an agreement on the part of the province to submit its budget for the general approval of the Governor of the Bank before presenting it to the Provincial Legislature.”<sup>19</sup> Clark added that many bondholders assumed that the Dominion would not let any province default. Interest rates were not lower, however, because there were enough skeptics to thwart much of the benefit to the western provinces of that “implied moral guarantee.”<sup>20</sup>

Clark had been deputy minister for less than three years when he wrote this politically naïve memo: The next two years would upset many of his assumptions – including his notion that the provinces would be willing to accept federal budgetary oversight and his certainty that Ottawa would never allow a province to default. But

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<sup>18</sup> Deputy Finance Minister W.C. Clark to R. K. Finlayson, January 3, 1935, LAC, Prov. Financial (Conf. File) P-1-10-1, RG 19, Volume 3986. 1.

<sup>19</sup> Clark, 2.

<sup>20</sup> Clark, 3.

the Ottawa wheels were now turning, hunting for solutions for inequality among the provinces.

In mid-January, 1935, the Deputy Governor of the Bank of Canada, J. A. C. Osborne, wrote to the Bank of England Overseas and Foreign Department, asking for more information on the Australian Loan Council, which had been featured at the Dominion-Provincial Conference in January 1934. Osborne was actually the Secretary of that British Bank, on loan for up to five years to the fledgling Canadian institution. His colleague J. Fisher replied promptly, explaining that Australia had an amending formula: All six Australian states had ratified the surrender of key powers to the federal authority – and the Australian voters had approved the idea of a loan council in a referendum. Canberra had then passed the Financial Agreement Validation Act of 1929. The adoption had been relatively simple. Fisher warned Osborne, however, that any similar agreement in Canada would require the approval of the Dominion Parliament and every Province – and that act, in turn, would require the consent of the British Parliament to become law. Unlike Australia, Canada did not have an amending formula.<sup>21</sup>

Fisher also advised Osborne that dramatic problems had developed quite quickly after the Australian amendment had passed. In 1931, New South Wales Governor Jack Lang had arbitrarily reduced the interest rates on his state's loans and cut the interest rate for bondholders. The controversy had embroiled the entire federation, and split the governing federal Labor Government. New South Wales duly defaulted,

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<sup>21</sup> Bank of Canada Archives, Research fonds, Provincial Financing 1-1, vol. 1 – Loan Councils & National Finance Council Confidential. J. Fisher of the Overseas & Foreign Department of the Bank of England to Bank of Canada Deputy Governor J. A. C. Osborne, January 28, 1935. pps. 1-3.



and the Commonwealth covered its tab. In January 1932, however, the United Australia Party under Prime Minister Joseph Lyon took power, and promptly passed an act to seize the revenues of New South Wales in recompense. In response, Lang withdrew all state funds from government bank accounts. In May 1932, State Governor Philip Game dismissed Lang's government, which was massively defeated in the ensuing election in June 1932. The High Court of Australia eventually upheld the validity of the 1932 federal act, which made the Commonwealth liable for state debts; and, crucially, it also upheld the Commonwealth's right to force a defaulting state to pay.<sup>22</sup>

The Bank of England's Fisher then provided more advice to Osborne that would prove prescient. A "weakness" in the Australian Government Loan Council was that semi-government bodies could still borrow without council approval, "but to make the Agreement all embracing would have been very difficult."<sup>23</sup> The Canadian bureaucrats took note – but they were undeterred. Meanwhile, the Bank of Canada kept researching. It concluded that the South African provinces were "not a worry" for the central government because the Reserve Bank would not lend to them without the central government's approval: "There has even been talk of abolishing

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<sup>22</sup> Bank of Canada Archives, Research fonds, Provincial Financing 1-1, vol. 1 – Loan Councils & National Finance Council Confidential. J. Fisher of the Overseas & Foreign Department of the Bank of England to Bank of Canada Deputy Governor J. A. C. Osborne, January 28, 1935. pps. 1-3.

<sup>23</sup> Bank of Canada Archives, Research fonds, Provincial Financing 1-1, vol. 1 – Loan Councils & National Finance Council Confidential. J. Fisher of the Overseas & Foreign Department of the Bank of England to Bank of Canada Deputy Governor J. A. C. Osborne, January 28, 1935. pps. 1-3.

the Provinces altogether.”<sup>24</sup> There were likely many occasions when the elite Ottawa bureaucrats envied the clout of the central governments in other federations.

Bank of Canada Governor Gordon Towers disregarded the Bank of England’s warnings about loan councils. In a memorandum, he described a conversation on May 16, 1935 with British Columbia Finance Minister John Hart who wanted Ottawa to cut the interest rates on its loans to his province. Otherwise, he warned, “more drastic action” could occur in the western provinces.<sup>25</sup> Hart asked about the possibility of borrowing from the Bank. Towers explained that such action was impossible. But, in that May 17, 1935 memorandum, he also hinted that the Bank might exercise supervision to assist struggling provinces:

I mentioned that we [federal officials] visualized possible arrangements in which the Province, the Bank and the Province’s chartered bankers would, in a sense, constitute a partnership whose chief object would be so to regulate the financial affairs of the Province that they would be able to take full advantage of the satisfactory situation now existing in the securities market.<sup>26</sup>

Hart was pessimistic, according to Towers: “He [Hart] did not think for political reasons the Province could submit to control by the Dominion Government but thought that such control could be given to the Bank of Canada.”<sup>27</sup> Both Hart and Towers wisely did not commit themselves to any scheme to ease inequality.

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<sup>24</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291 Secretary, PF1-1, Volume 1. “South Africa” memo of July 10, 1935. Initials from Bank of Canada Governor Gordon Towers and Deputy Governor J. A. C. Osborne.

<sup>25</sup> Bank of Canada Archives, Department of Bank Operations fonds, Towers Memoranda 1935-1937, 0-51. “Memorandum of conversation with Honourable John Hart, Minister of Finance for the Province of British Columbia, May 16, 1935. p. 2

<sup>26</sup> Towers memoranda, p. 1.

<sup>27</sup> Bank of Canada Archives, Department of Bank Operations fonds, Towers Memoranda 1935-1937, 0-51. “Memorandum of conversation with Honourable John Hart, Minister of Finance for the Province of British Columbia, May 16, 1935. 2.

Such discussions did not seep into the press. The *politics* of the federal situation consumed the attention of Ottawa journalists. Against the terrible backdrop of the ongoing Depression, they were riveted by the upcoming election: How would King handle Bennett? How would Bennett, who was famously short-tempered and ill, handle the stress of the coming election? Even *Winnipeg Free Press* journalist Grant Dexter, who was superbly well-connected, did not mention the bureaucratic hunt for models – not even in his insider letters to his editor, John Dafoe.<sup>28</sup>

### **The 1935 Canadian Election**

The Australians, in turn, were keeping an ever-closer watch on Canada's efforts to deal with its economic and political quandaries. In the spring of 1935, foreign affairs representatives in the Dominion of Canada, the Commonwealth of Australia and the Union of South Africa agreed to exchange "in a more direct manner, current social, political, statistical and economic information...as well as any general information that might be deemed interesting and useful to the other Dominions."<sup>29</sup>

But those Australian diplomats did not tell their home country what was becoming apparent: No matter what Bennett did, and he did much to change his strategy for dealing with the stark economic inequalities among Canadians and their provincial governments during his last months in office, he could not revive his popularity. In January 1935, in a series of five radio broadcasts, the Prime Minister

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<sup>28</sup> See 1935 letters from *Winnipeg Free Press* Ottawa correspondent Grant Dexter to editor John Dafoe of January 4, January 7, January 12, January 14, January 21, January 23, July 11, etc., John Dafoe fonds, University of Manitoba Archives, Box 8, Folder 1.

<sup>29</sup> W.R. Hodgson, assistant secretary of the Australian External Affairs Department to The Officer-in-Charge, Territories Branch, Prime Minister's Department, May 2, 1935 in Territories - Exchange of Information with Canada and South Africa., National Archives of Australia, Series A518, Control symbol DB112/1, Barcode 102498.

had delivered a startling vision of a reform agenda that reflected U.S. President Franklin Roosevelt's New Deal.

It was a remarkable conversion after four-and-a-half years in power and it astonished his cabinet. The Prime Minister had drafted the texts in private consultation with his political advisor and speechwriter R. K. Finlayson and his brother-in-law W. D. Herridge, the Canadian Minister to Washington, who greatly admired the American New Deal.<sup>30</sup> His cabinet ministers were not consulted. As Bennett's biographer, historian John Boyko, explains, the man who was seen as a firm defender of capitalism and big business was now "boldly announcing that capitalism was broken, that corporate Canada had let the country down, and that radical reform was needed to put things right."<sup>31</sup>

The Speech from the Throne, which came two days after the last of those addresses, echoed that message with incendiary discourse. Bennett's Government outlined the failures of capitalism – and emphasized the pressing need for fairer treatment for Canada's beleaguered citizens. "In the anxious years through which you have passed, you have been the witnesses of grave defects and abuses in the capitalist system," Bennett's government declared while his seriously divided cabinet listened. "Unemployment and want are proof of these. Great changes are taking place about us. New conditions prevail. These require modifications in the

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<sup>30</sup> Donald Forster and Colin Read, "The Politics of Opportunism: The New Deal Broadcasts" *The Canadian Historical Review*, xl, 3 (1979), 327.

<sup>31</sup> Boyko, John. *Bennett: The Rebel Who Challenged and Changed a Nation*. (Toronto: Key Porter Books Limited, 2010) 363-364.

capitalist system to enable that system more effectively to serve the people.”<sup>32</sup>

Bennett promised “legislation to bring about unemployment insurance, minimum wages, old-age pensions, workplace reform, and changes to regulate companies and to help farmers sell their products.”<sup>33</sup> It was one of the most extraordinary conversions in Canadian political history. But it was too late. Some historians remain dubious that it was heartfelt.<sup>34</sup> But Bennett staked his reelection on the plan.

The Prime Minister sought to expand the flimsy social security net, gradually, over the horrified objections of hardline conservatives who accused him of socialism. He especially wanted to replace relief with the more dignified alternative of Unemployment Insurance that would allow employers, employees and the federal government to contribute to a fund that would support those who had lost their jobs because of the economic difficulties of their firms. As Boyko writes, the Prime Minister’s Unemployment and Social Insurance Act constituted “a statement as clear as the July prairie sun that the government should care for and about the welfare of the governed.”<sup>35</sup>

For Canadians still trapped in the Depression, Bennett’s plan was a fascinating but not totally unfamiliar move: The Prime Minister and his officials had discussed unemployment insurance with provincial premiers for at least three years. But it

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<sup>32</sup> Speech from the Throne, January 17, 1935 as quoted in Janine Brodie, “Three Stories of Canadian Citizenship” in *Contesting Canadian Citizenship: Historical Readings*, eds. Robert Adamoski, Dorothy E. Chunn, and Robert Menzies (Peterborough, On. : Broadview Press, 2002) 52.

<sup>33</sup> Boyko, 379.

<sup>34</sup> Donald Forster and Colin Read, “The Politics of Opportunism: The New Deal Broadcasts” *The Canadian Historical Review*, xl, 3, 1979. p. 347.

<sup>35</sup> Boyko, 380.

remained an elusive measure in the Canadian federal state, which still could not figure out how to divide responsibilities and revenues among the different levels of government – despite the desperate conditions among workers.

There had to be way to relieve the inequalities among provinces, fostering social cohesion and easing mutual resentments. Ottawa took the initiative in this hunt, looking for ways to unite the provinces under *its* leadership. Despite the negative reception in January 1934, the Loan Council idea remained alive. In mid-1935, the new Bank of Canada Secretary Donald Gordon was examining “the good features of Australia’s Loan Council” to adapt them to Canada’s constitutionally powerful provinces: An advisory council could approve bond issues, he suggested, or it could *withhold approval* as a “disciplinary weapon to invoke in case of an ignoring by any Province of the Council’s recommendations.” Gordon added: “Now is the psychological time to do something.”<sup>36</sup>

But, throughout that spring of 1935, Bennett would not venture beyond relief grants and loans to the poorer provinces, along with money for public works projects. It was a gamble. Liberal leader Mackenzie King watched with a mixture of glee and dread, first challenging Bennett to table the entire package and then pecking away at individual bills and *questioning the constitutional validity of key measures such as unemployment insurance*. But he shrewdly did not attempt to defeat the government. Bennett would have to put his bills before the House – and on the line.

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<sup>36</sup> Bank of Canada Archives, Department of Banking Operations Fonds, Provincial Financing – General – 1934- January 1937. “Memorandum To Then Governor” of July 22, 1935, File PF 1 – Volume 1, Research B1. 4, 2.

By the late spring, the Prime Minister was exhausted. He had endured an acute respiratory infection and a heart attack, struggled to handle the mounting frustration among unemployed single men in the relief camps, and overseen trade talks with the United States. When unemployed men deserted the British Columbia camps in April 1935 to join a Vancouver protest, Bennett dismissed provincial and municipal pleas for help with the protesters: The Prime Minister had denounced the capitalist regime but he could not empathize with people that he viewed as threats to law and order.<sup>37</sup> Somehow his government managed to present fourteen pieces of significant legislation, including Unemployment Insurance. “It was,” says Boyko, “a remarkable achievement.”<sup>38</sup> But his New Deal package was also flawed. As political scientist W. H. McConnell would later write in the *Osgoode Hall Law Journal*: “The disjointedness and incoherence of the New Deal – its lack of unity or system – is attributable to Bennett’s notorious penchant for one-man rule.”<sup>39</sup>

The Canadian New Deal – with its tangle of measures – could not save the Prime Minister. The government had lost the consent of the governed: The voters turned on the Conservatives. Bennett ran on his record, insisting that unemployment had waned since 1930. He talked about the newly created Bank of Canada. He cited his efforts “to improve wages and working conditions, and policies that had provided jobs and relief to desperate Canadians.”<sup>40</sup> It was all in vain. As Mackenzie King told voters in Port Arthur, Ont.: “You have had five years of the Bennett Government. I wonder if any of you are as well off now as when it started?”<sup>41</sup> The resentment about

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<sup>37</sup> Boyko, 331.

<sup>38</sup> Boyko, 390.

<sup>39</sup> W. H. McConnell, “The Judicial Review of Prime Minister Bennett’s New Deal” in *Osgoode Hall Law Journal*, Volume 6, Number 1 (October 1968) 40.

<sup>40</sup> Boyko, 401.

<sup>41</sup> Larry Glassford, *Reaction & Reform: The Politics of the Conservative Party Under R. B. Bennett 1927-1938* (Toronto: University of Toronto Press, 1992.) 181.

inequality, even in comparison with one's own past, was in the air. The Liberal leader's slogan was: "King or Chaos."

On Election Day on October 14, 1935, *The Globe* headline trumpeted: "Canada Votes Today in Biggest Election in Her History." The number of parties and the number of candidates had set records.<sup>42</sup> Six million people were eligible to cast a ballot. In the end, it was a Liberal landslide of 173 seats. The fledgling CCF took seven seats. Bennett's so-called Liberal-Conservative Party took only thirty-nine seats. Significantly, Bennett took only one seat in Alberta, which was his own, one seat in Saskatchewan and one seat in Manitoba. It was probably impossible for him to do better: despite Ottawa's ad hoc payments for relief and other needs, the West was lurching from crisis to crisis.

### **King Takes Control**

The spotlight was now on King, who remained improbably wedded to the notion that the federal government was not responsible for the provinces' fiscal ills. He still did not understand the terrible power of fiscal inequality among the provinces – or the political price to be paid for such inequality. But, while he resisted pleas for further intervention in the economy, he also knew that he had to *appear* to be doing something, if only to set a new tone to promote social cohesion.

He moved swiftly. Within two days of the election, he invited the Provincial Premiers to Ottawa "for the purpose of dealing with financial problems and constitutional difficulties with respect to reform legislation passed by the Bennett Government, much of which, it is feared, is invalid."<sup>43</sup> On November 4, 1935, King and his cabinet passed an order-in-council to refer eight Bennett statutes to the Supreme Court of Canada, including the Unemployment Insurance measure.<sup>44</sup>

So many groups were divided over the legality of the UI measure – including provinces such as Ontario and New Brunswick and representatives of large

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<sup>42</sup> "Canada Votes Today in Biggest Election in Her History" in *The Globe*, Monday, October 14, 1935. p. 1.

<sup>43</sup> "Conference of Premiers In November: Cabinet to Discuss Bennett Acts" in *The Globe*, Thursday, October 17, 1935. p.1.

<sup>44</sup> W. H. McConnell, 41.



industries such as the Canadian Manufacturers Association, CPR president Edward Beatty and Canadian Bank of Commerce vice-president Sir Thomas White – that King wanted clarification *before* implementation.<sup>45</sup> Quebec Premier L. A. Taschereau had referred to the New Deal as “a socialistic venture bordering on Communism” – but he supported unemployment insurance.<sup>46</sup>

Even the government’s own actuaries had reported to Parliament that the policy “has itself the tendency, for various reasons, to increase unemployment.”<sup>47</sup> Privately, in his diary, the Prime Minister referred to the laws as “doubtful” so referral was “a great step.”<sup>48</sup> The canny politician did not want endless squabbles with the provincial leaders who had opposed the Bennett measures just before the upcoming Dominion-Provincial Conference.

Three days before the conference, Bank of Canada deputy governor J. A. C. Osborne sent an oblivious memo to Deputy Finance Minister Clark, airily offering his views on procedure at the upcoming conference. “Piecemeal negotiations” with individual provinces would no longer suffice at the start of a new term – and the new Bank of Canada should offer advice to the politicians. The Dominion should admit its liability for unemployment insurance, old-age pensions and non-sectarian education.

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<sup>45</sup> Alvin Finkel, *Business and Social Reform in the Thirties* (Toronto: James Lorimer & Company, Publishers, 1979) pps. 89-91, 96.

<sup>46</sup> W. H. McConnell, “The Judicial Review of Prime Minister Bennett’s New Deal”, 47 and Finkel, *Business and Social Reform in the Thirties*, p. 89.

<sup>47</sup> “Many Safeguards Held Necessary in New Legislation,” in *The Ottawa Journal*, Friday, February 15, 1935, p. 13.

<sup>48</sup> Diary of William Lyon Mackenzie King, Monday, November 4, 1935, p. 5.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=16549&>

Then “it would only be a question of administration” to decide how long the provinces should “act as agents for the Dominion in carrying out Dominion [social] policy.” When that deal was concluded, it would only entail “the necessary loss of time” to amend the Canadian constitution. Then Ottawa could proceed to showing each province “how to mend its way and balance its budget on a lower level.” The Dominion, in turn, could reduce tariffs to revive trade and increase its revenues. If that did not work, Ottawa could cut the number of provinces. If that not work, “the Liberals could resign and let somebody else have a shot.”<sup>49</sup>

Clark probably hit the roof: Only a rather condescending bureaucrat from a unitary state could have made such assertions. Osborne did not understand how the partners in a federation had to work *together*. In his biography of Bank of Canada Governor Gordon Towers, former government adviser Douglas H. Fullerton noted that Osborne “was regarded by the Bank staff as fair and impartial, but his English mannerisms and Bank of England traditions did not endear him to everyone.”<sup>50</sup> King would never have contemplated such measures anyway: he had already referred Bennett’s far less intrusive social legislation to the Supreme Court. And he was always hesitant about assuming more federal responsibilities.

The Conference ran from Monday, December 9 to Friday, December 13, and it stands as a remarkable example of King’s ability to temporize under the guise of consultation. It also illustrates how heavily the federal government was relying on

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<sup>49</sup> Bank of Canada Archives, Department of Banking Operations Fonds, Dominion-Provincial Conference – 1935, file PF1–2 Vol. 1 Nov. 1945, Enclosure of December 3, 1935 with covering letter of December 7, 1935 from Bank of Canada Deputy Governor J. A. C. Osborne to Deputy Finance Minister W. C. Clark. 3-5.

<sup>50</sup> Douglas H. Fullerton, *Graham Towers And His Times*. (Toronto: McClelland and Stewart, 1986) 84.

Australia's approach to handling provincial debt and fiscal inequalities among its states. Governments at this Conference recognized that they were key players in tackling fiscal inequalities among themselves and their struggling citizens during the Depression. They also realized that their voters had just ousted the federal Conservative government – and those voters were quite capable of turning on them.

But they were *very* far apart in their acceptance of any possible solution beyond the continuation of federal relief contributions, ad hoc grants and loans to deal with the fiscal differences and crises among them. During the dangerous depths of the Depression, they could not agree on a formal mechanism – they could not even envision such a mechanism – to remedy fiscal inequalities among their governments to ease discontent among their citizenry.

But *every* Premier also knew that it was politically risky for the richer provinces to denounce the poorer provinces and their needs too strongly. Everyone remembered the March on Ottawa, which the Regina police and the RCMP had violently broken up on July 1, 1935. That incident had reinforced the public attitude “that ‘Iron Heel’ Bennett had little concern for the working man.”<sup>51</sup> As Boyko, notes: “Liberal papers and his political opponents were quick and ruthless in using [the strike, trek, and riot] as ammunition against him in the election that followed only months later, with the blood on Regina's streets still fresh in the nation's collective memory.”<sup>52</sup> The fledgling Co-operative Commonwealth Federation had emerged from that election with a significant 9.3 per cent of the popular vote.

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<sup>51</sup> Boyko, *Bennett: The Rebel Who Challenged And Changed A Nation*, pps. 344-345

<sup>52</sup> Boyko, *Bennett: The Rebel Who Challenged And Changed A Nation*, p. 346.

But there were entrenched and adamantly opposed interests among the politicians. As *Le Devoir* noted, “never before, even in the worst moments of the financial crisis of 1931, have the financial difficulties which assail the federal, provincial and municipal governments been so clearly explained and so keenly felt... one is seized with an understanding of the financial malady.”<sup>53</sup> Such difficulties ensured that the stalemate at this Conference could not be attributed solely to Mackenzie King – although it suited him. After five full years of Depression, the provinces’ disagreements about how they should share with each other allowed King’s government to dodge most immediate demands for action to remedy the fiscal inequalities among them. The Conference did set up machinery to study federation problems that could not be resolved that week. In the end, those supposedly permanent committees did not make much progress during subsequent months – and they eventually lapsed. The December 1935 Conference was the eighth Dominion-Provincial Conference since Confederation – and it would be the last until the grim days of wartime in January 1941.

King opened the gathering with a convoluted summary of his aim: he wanted to figure out how the federation had changed since 1867, where “provincial responsibility should begin and federal responsibility should cease... ...[and] where, for various reasons, clear demarcation is not possible, to reach with respect to each problem, a formula for co-operation between the Dominion and the provinces.”<sup>54</sup>

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<sup>53</sup> “Les difficultés d’ordre financier sont considérables,” Ottawa, *Le Devoir*, Tuesday, December 10, 1935. p. 1. My translation from clipping.

<sup>54</sup> Proceedings of Opening Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings*. (Ottawa: J. O. Patenaude, I.S.O., Printer To The King’s Most Excellent Majesty, 1936) 9.

Every Premier understood the issues – and the inequalities among them. But each Premier’s approach to the solutions was radically different – and it would remain that way for decades. Ontario Liberal Premier Mitchell Hepburn had campaigned vigorously for King throughout Ontario and across the West during the election but as his biographer John T. Saywell explains, the Prime Minister “saw only [Hepburn’s] ambition” to replace him.<sup>55</sup> Their relationship, which would reach its nadir during the war, was already fraying. As the Premier from fat-cat Ontario, Hepburn assured King that “our presence here is not to be construed as a raid on the federal treasury.”<sup>56</sup> Then he pointedly noted the problems that overlapping federal and provincial services created, discouraging Ottawa’s interference in his province.

Quebec Premier Taschereau echoed that independent approach. “Confederation is pretty old now,” he mused. “We have to face to-day problems that did not exist in 1867.”<sup>57</sup> The provinces needed the right to levy indirect taxes such as sales taxes – and King should let them “know exactly where they stand in this matter.”<sup>58</sup> The bottom line was that Quebec could help itself if it had broader taxing powers.

Other Premiers fretted about dependency. British Columbia Premier T. D. “Duff” Pattullo complained that the virtue of self-reliance among seasonal workers had

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<sup>55</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*. (Toronto: University of Toronto Press: 1991) p. 223.

<sup>56</sup> Ontario Premier Mitchell F. Hepburn, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King’s Printer, 1951). p. 10.

<sup>57</sup> Quebec Premier L. A. Taschereau, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King’s Printer, 1951). p. 11.

<sup>58</sup> Taschereau, *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. p. 12.

vanished: it was now “Eat, drink, and be merry, for to-morrow we go on relief.”

Ottawa had to fund the construction of public infrastructure to provide jobs.

Otherwise, there would be political instability and dependency “because more and more this psychology will prevail among the people.”<sup>59</sup>

The Manitoba and Saskatchewan Premiers confronted desperate inequalities among their governments and their citizenry and the breakdown of social order. Manitoba Premier John Bracken wanted “to realign the present sources of public revenue, on the basis of the relative responsibilities allotted to the three jurisdictions in our federal system.”<sup>60</sup> Within the last ten years, the value of Manitoba’s agricultural products had been halved. Within the last five years, farmers in the three Prairie Provinces had lost \$1-billion in purchasing power. Somehow, his government had provided food, clothing and shelter for everyone in need, borrowing \$35-million to ensure their survival. But 70,000 people were still on relief – and the interest on the debt to pay for relief was \$1.5-million per year. Revenues should be realigned - or the responsibilities for social services should be reassigned. “[T]he needs of to-day cannot be met within the limitations of the constitution of sixty-eight years ago,” he declared.<sup>61</sup>

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<sup>59</sup> British Columbia Premier T. D. Pattullo, comments on December 13, 1935 at the second plenary session of the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King’s Printer, 1951). p. 54.

<sup>60</sup> Manitoba Premier John Bracken, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King’s Printer, 1951). p. 13.

<sup>61</sup> Bracken, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. p. 14.

Saskatchewan Premier William John Patterson recounted the province's devastating problems with drought, drifting soil, plagues of grasshoppers and fungal leaf rust. Eight thousand families had moved from the drought-stricken south to the north of the province, and, unless they could be helped to sustain themselves, they were "a permanent relief problem."<sup>62</sup> Ottawa, the Saskatchewan government and its municipalities had spent a staggering \$105-million since 1929 on relief and agricultural assistance. To little avail. "Conditions in Saskatchewan have reached proportions of a national calamity or a national catastrophe, far beyond the capacity of any one province to handle...[the municipalities] face in the immediate future inevitable default."<sup>63</sup> He, too, asked for a reallocation of taxing and legislative powers to remedy such abysmal inequality.

In contrast to his fellow Westerners, particularly in light of what would occur in less than five months, Alberta Premier William "Bible Bill" Aberhart was publicly bland and duplicitous. "The time has come when we must balance our budget," he told his fellow First Ministers. "It has been our desire and our determination to so administer our affairs that we shall not have to come to the Dominion for money, but shall be able to handle our own problems and balance our budget." The province might need federal public works, "but we are very desirous ...to help our people

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<sup>62</sup> Saskatchewan Premier W. J. Patterson, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King's Printer, 1951). p. 19.

<sup>63</sup> Saskatchewan Premier W. J. Patterson, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. p. 19.

stand on their own feet.”<sup>64</sup> Behind the scenes, in private appeals to Ottawa, the Premier and his Treasurer would tell a different story.

Most Maritime Premiers understood that their problems had to take second place to the Prairie Premiers’ dismal plight. The remarkable Nova Scotia Premier Angus L. Macdonald merely offered the bland hope for “conclusions of common benefit to us all.”<sup>65</sup> New Brunswick’s Allison Dysart delivered deceptively mild platitudes: “It would be unfortunate indeed if in our deliberations we should seek to limit the discussion to the imaginary boundary lines that mark our geographical limits.”<sup>66</sup> Prince Edward Island’s Walter Lea simply repeated the familiar complaints about inequality that his predecessors had articulated since the province had joined Confederation in 1873: “When we look at the contributions and loans made to the other provinces we see that on a per capita basis we have got only small change.”<sup>67</sup> Fiscal inequality was a continuing theme among the Maritime Provinces.

When the opening statements were concluded, King, a handful of his cabinet colleagues and the premiers met informally with the mayors of several cities who were sinking under debts to fund relief. In retrospect, it would be a pivotal meeting, reinforcing the importance of municipalities in the provision of relief would become even more thoroughly ingrained in all politicians’ minds: it would ensure that

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<sup>64</sup> Alberta Premier William Aberhart, Proceedings of Opening Day Plenary Session at the Dominion Provincial Conference 1935. *Dominion-Provincial Conferences: November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941*. (Ottawa: Reprinted by Edmond Cloutier, King’s Printer, 1951). p. 21.

<sup>65</sup> Premier Angus L. Macdonald, Proceedings of Opening Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings*. p. 12.

<sup>66</sup> New Brunswick Premier Allison Dysart. Proceedings of Opening Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings*, 13.

<sup>67</sup> Prince Edward Island Premier Walter Lea. Proceedings of Opening Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings* 16-17.



municipal governments were well consulted when King finally established a Royal Commission on Dominion-Provincial Relations.

The Premiers and their entourages then broke into six sub-committees. They would not reconvene in a plenary session until 3 p.m. on Friday, December 13 – when it would become clear what counter-revolutionary ideas lurked in Ottawa’s briefing memorandums. Ottawa did *not* want to shuffle revenues or responsibilities to remedy inequality. Instead, Finance Minister Charles Dunning had provocative suggestions about how Ottawa could ease provincial debt loads. From the start, both Dunning and King had not accepted the real extent of the provinces’ woes. As King’s biographer Blair Neatby has observed, “King had convinced himself that Bennett’s grants-in-aid to the provincial governments had encouraged extravagance and waste.”<sup>68</sup> The Prime Minister even told his diary that the provinces “had almost certainly been reckless with relief funds because they were spending federal money.”<sup>69</sup>

The real action took place in the committee on financial questions, which Dunning chaired. And while an abbreviated and watered-down version of those meetings was later presented to the full conference, other confidential memoranda show that progress there was shockingly minimal. Ottawa wanted to find another way to relieve the provinces’ fiscal pressures without increasing its special grants. Provinces had already raised taxes, introduced new taxes, and cut back services. But their budgets were still not balanced and their debts were increasing. They were

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<sup>68</sup> H. Blair Neatby, *William Lyon Mackenzie King: The Prism of Unity 1932-1939*. (Toronto: University of Toronto Press, 1976) 156.

<sup>69</sup> H. Blair Neatby, *William Lyon Mackenzie King: The Prism of Unity 1932-1939*. (Toronto: University of Toronto Press, 1976) 156.

definitely in a fix. As the subcommittee report would privately note: “The financial relationships between the Dominion and the provinces are presently in a chaotic state. Constitutional difficulties and political uncertainties are obstacles to a solution. The effect is damaging.”<sup>70</sup>

In a confidential memorandum, which was then restricted to only four copies and which summarized three days of private discussions, federal officials noted the demands for renegotiated debt obligations. Nova Scotia Premier Angus L. Macdonald shrewdly asked about the Australian conversion plan for bondholders. Deputy finance minister W. C. Clark replied that only a small percentage of bondholders were forced to convert their bonds to lower interest rates – “and their sacrifice was part of a comprehensive recovery scheme.”<sup>71</sup> Macdonald stipulated that he preferred a redistribution of revenues and expenditures to forced conversion anyway. Alberta Treasurer Charles Cockroft then explained that Alberta had joined the committee “as a gesture of courtesy only, as they had already taken the first steps in working out their own conversion scheme.”<sup>72</sup> His audience would soon find out – to their dismay - what the Albertans had devised.

The committee then considered the example of Australia, which would drive the federal search for more equality among governments throughout the remainder of

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<sup>70</sup> Report Of Subcommittee On Financial Questions, Dominion-Provincial Conference 1935 Miscellaneous general file, LAC, MG 47, Volume 62, 9.

<sup>71</sup> Bank of Canada Archives, Department of Bank Operations fonds, file PF1 – 2 Vol. 1, Nov. +15, “The Dominion-Provincial Conference, December 1935 – Sub-Conference on Financial Questions,” December 15, 1935 Confidential memorandum by “Mr. Skelton.” 4.

<sup>72</sup> Bank of Canada Archives, Department of Bank Operations fonds, file PF1 – 2 Vol. 1, Nov. +15, “The Dominion-Provincial Conference, December 1935 – Sub-Conference on Financial Questions,” December 15, 1935 Confidential memorandum by “Mr. Skelton.” 5.

the decade. As the committee report on financial questions would later affirm: “The parallel between the constitutional and financial problems of Canada and Australia draws attention to recent Australian measures.”<sup>73</sup>

Federal bureaucrats had provided Dunning with a 15-page memo on the Australian Loan Council. In 1929, after failed efforts to find a formula to distribute federal revenues to the states, Canberra had adopted the Financial Agreement Validation Act, which Australians had ratified in a national referendum for insertion into the Constitution. (This was the legislation that had provoked the crisis with the Governor of New South Wales in the early 1930s.) With this act, the Commonwealth had taken over all state debts, and then put the management of all future federal and state borrowings under the control of the newly reorganized Australian Loan Council. (The Council had been operating since 1924 – but only to prevent disastrous competition among the states in the money markets.)

Under the newly empowered Australian Loan Council, future loans would be issued “either as direct obligations of the Commonwealth or as obligations of the States with the guarantee of the Commonwealth.”<sup>74</sup> After describing this process, the Dominion memo added with a tinge of envy: “Australia was fortunate to begin the depression with two effective instruments of financial control, namely, the Loan Council and the central or Commonwealth bank.”<sup>75</sup>

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<sup>73</sup> Report Of Subcommittee On Financial Questions, Dominion-Provincial Conference 1935 Miscellaneous general files, LAC, MG 47, Volume 62, 3.

<sup>74</sup> “The Australian Loan Council”, Dominion Provincial Conference 1935, Secret, D.P.C. 35 (F) 1935, Miscellaneous general file, LAC, MG 47, Volume 62. 2.

<sup>75</sup> “The Australian Loan Council”, Dominion Provincial Conference 1935, 4.

Perhaps a Canadian version of the Loan Council could secure better interest rates for Ottawa and the provinces, lowering the stress on provincial budgets, and relieving the pressure of fiscal inequality among the provinces. In his biography on Bank of Canada Governor Gordon Towers, former government adviser Douglas H. Fullerton maintained that Towers provided the memo on loan councils to Dunning in early January 1936. But, appended to the secret committee report on financial questions, was a memo, "A Suggested Loan Council For Canada," which was also headed "D.P. 35."<sup>76</sup> (That would indicate Dominion-Provincial 1935.) This was probably the Towers' memo, and it was clearly provided to the Dominion-Provincial delegates. Dunning proposed "the organization of a Loan Council as an integral part of any conversion scheme."<sup>77</sup>

Journalists were definitely aware of the bare bones of the Bank of Canada and the Finance Ministry's approach when the Conference commenced. *The Globe's* Ottawa correspondent William Marchington heralded the creation of the subcommittee on financial questions, noting that it was going to consider "refunding; [and] the creation of a National Finance Council" among other issues.<sup>78</sup> He added:

Under the headings of refunding and interest rates comes the question of reconstituting the Federal, Provincial and municipal debt of the Dominion, which aggregates between six and seven

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<sup>76</sup> "A Suggested Loan Council For Canada", Dominion Provincial Conference 1935, Secret, D.P. 35 (F) 1935, Miscellaneous general file, LAC, MG 47, Volume 62. Nine pages.

<sup>77</sup> "The Dominion-Provincial Conference, December 1935 – Sub-Conference on Financial Questions," December 15, 1935 Confidential memorandum by "Mr. Skelton." Bank of Canada Archives, Department of Bank Operations fonds, file PF1 – 2 Vol. 1, Nov. +15, p.10.

<sup>78</sup> William Marchington, "Way Opened For Changing B.N.A. Act" in *The Globe* on Tuesday, December 10, 1935. p. 2.

billion dollars. It is believed the subcommittee will discuss the establishment of a National Finance Council for the purpose of formulating a comprehensive voluntary conversion scheme similar to those successfully launched in Britain and Australia. This would involve reconstitution of the internal debts of the various governmental bodies at lower rates of interest, but obligations to investors in other countries almost certainly would be unaffected.<sup>79</sup>

A day later, *The Globe* editorial lauded the idea of a National Finance Council that could end “the constant claims for assistance and the demands for relief from certain obligations.”<sup>80</sup> But it warned that relief costs were not the only drain on provincial treasuries. Provinces and municipalities had “plunged into prodigality before the relief problem became acute.”<sup>81</sup> Rigid federal control should be imposed on their future expenditures. The provinces should relinquish some taxation sources. “Dominion credit must be maintained, at whatever cost to Provinces and cities.”<sup>82</sup>

Similarly, in mid-week, *The Ottawa Journal* reported that Ontario Premier Mitchell Hepburn was espousing federal refinancing of provincial debt, which would include “a reduction of interest rates on debts already outstanding and also is designed to improve public credit for future financing.”<sup>83</sup> The Premier estimated that this would result in an annual saving of approximately \$18 million.

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<sup>79</sup> William Marchington, “Way Opened For Changing B. N. A. Act” in *The Globe* on Tuesday, December 10, 1935. p. 2.

<sup>80</sup> “The Program At Ottawa” in *The Globe* of Wednesday, December 11, 1935. p. 4.

<sup>81</sup> “The Program At Ottawa” in *The Globe* of Wednesday, December 11, 1935. p. 4.

<sup>82</sup> “The Program At Ottawa” in *The Globe* of Wednesday, December 11, 1935. p. 4.

<sup>83</sup> “Hepburn Urging Refunding On Lower Interest Rate Basis,” in *The Ottawa Journal*, Wednesday, December 11, 1935. p. 1.

The idea of an expanded fiscal role for Ottawa – if only to refinance and guarantee existing provincial debts – was now definitely in the public realm. But the model of Australia received only brief mention in the press.

### **Agreement Eludes The Conference**

The trouble was that Ottawa's proposed loan council would be heavy-handed. Under the plan, the Dominion Government would guarantee outstanding provincial debts. In turn, "an essential complement of such programme would be the concession by the province to the Dominion Government of the power to control future borrowing operations."<sup>84</sup> The loan council memo referred to another accompanying memo on the Australian model, which "has reached a high degree of success." That secret thirteen-page memo, in turn, outlined the history of the Australian Loan Council, including an in-depth analysis of its operations, careful criticism of its "autocratic powers...[that] can scarcely be said to be in accord with democratic conditions," and the full text of the pertinent legal sections of the Australian Financial Agreement Validation Act.<sup>85</sup>

The Canadian proposal for a loan council also looked at the Bank of England's "centralized and highly flexible" approach to British treasury bills. But Britain, of course, was a unitary state. The memo then cited the state loan provisions in the colony of India, which retained its status as a colonial conquest: the Indian

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<sup>84</sup> "A Suggested Loan Council For Canada", Dominion Provincial Conference 1935, Secret, D.P. 35 (F) 1935, Miscellaneous general file, LAC, MG 47, Volume 62. p. 6.

<sup>85</sup> The Australian Loan Council: Dominion Provincial Conference 1935, Secret D. P. C. 35 (F), Dominion-Provincial conference 1935 Miscellaneous general file, LAC, RG 47, Volume 62, p. 7.

federation's new constitution ensured "the provinces are definitely more subordinate to the central government than the provinces in Canada."<sup>86</sup>

The committee on financial questions did not wholeheartedly embrace the Australian loan council as a way to help the poorer provinces. Indeed, it shied away from the rigidities and the implications in both the Australian model and the Canadian proposal. Instead, it guardedly observed: "A non-political Loan Council, exercising its advisory functions in a proper manner, and re-enforcing its recommendations by publicity, could effectively improve the situation. It could exercise a very favourable influence on Canadian public finance without derogating from the sovereignty of Parliament and the legislatures. The resultant confidence would react to the benefit of both taxpayer and the investor."<sup>87</sup> In effect, any loan council would be advisory.

That was faint praise in a federation that could not come to terms with the fiscal inequalities among its members. There seemed to be no way to help the poorer provinces dodge default without fundamental adjustments to federal revenues and responsibilities. But the federation had no amending formula – and, I will show, King would not accept radical change to responsibilities and revenues anyway.

King had tried to adopt an amending formula during the Dominion-Provincial Conference of 1927. But his proposed approach, which differentiated between ordinary and fundamental amendments such as those that affected provincial and

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<sup>86</sup> "A Suggested Loan Council For Canada", Dominion Provincial Conference 1935, Secret, D.P. 35 (F) 1935, Miscellaneous general file, LAC, MG 47, Volume 62, p. 5.

<sup>87</sup> Report Of Subcommittee On Financial Questions, Dominion-Provincial Conference 1935 Miscellaneous general file, LAC, MG 47, Volume 62, 9.

<sup>87</sup> Report Of Subcommittee On Financial Questions, Dominion-Provincial Conference 1935 Miscellaneous general file, LAC, MG 47, Volume 62, 9.

minority rights did not rally support “and thus became a dead letter.”<sup>88</sup> He tried again at the 1935 Conference, suggesting that if Parliament and two-thirds of the provinces with at least fifty-five per cent of the national population agreed, Canada could amend its Constitution on matters directly affecting the provinces.<sup>89</sup> Although the 1935 Conference created a continuing committee on constitutional questions, its proposals were never adopted.<sup>90</sup>

Meanwhile, the situation in Alberta was becoming increasingly dire. During the federal election campaign of 1935, Aberhart and his Attorney General Charles Cockroft had visited Ottawa to push Bennett for a loan: the former Prime Minister had advanced only sufficient emergency funds of \$2.25-million to cover such requirements as unemployment relief and interest charges on the debt until the election.<sup>91</sup> On November 22, the new Liberal government had loaned another \$1-million to Alberta, partly to meet the cost of relief.<sup>92</sup> Just before the Conference, Acting Alberta Premier Ernest Manning had explained the province’s straits in a letter to Canada’s principal bond dealers, suggesting that the province’s debt “might be refunded at lower interest rates.”<sup>93</sup> As former senior bureaucrat Robert B. Bryce later recounted: “This action, of course, destroyed what was left of the credit

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<sup>88</sup> Daniel Dupras, “The Constitution Of Canada: A Brief History of Amending Procedure Discussions,” Law and Government Division, Library of Parliament, Government of Canada, January 1992.

<http://publications.gc.ca/Collection-R/LoPBdP/BP/bp283-e.htm>

<sup>89</sup> Dupras.

<sup>90</sup> Dupras.

<sup>91</sup> “Summary of Assistance Requested of and Given By The Dominion to Province of Alberta Since September 3, 1935.” Memo dated April 16, 1937. LAC. P-1-1-10. Provincial Matters – Alberta – Miscellaneous – P – 1-1-10. RG 19. Vol. 3985. N.n. p. 1.

<sup>92</sup> Summary of Assistance, p. 1.

<sup>93</sup> Douglas H. Fullerton, *Graham Towers And His Times*. 74.



standing of the Alberta government and lent considerable urgency to the search for some solution to the debt problems of the western provinces generally.”<sup>94</sup> The debts were creating political instability.

Perhaps most dramatically, a few days prior to the Dominion-Provincial Conference, “the Provincial Treasurer called in person [presumably at the federal finance ministry in Ottawa] and left a document...setting forth certain suggestions.”<sup>95</sup> This document included the request that the Dominion *join* with the provincial government in negotiations with the province’s bondholders for a reduction in interest rates and a change in the dates of maturity. Alberta also proposed that Ottawa should guarantee Alberta’s debt, and that it should perhaps consolidate the existing debts of Calgary and Edmonton.<sup>96</sup>

The delegates discussed that suggestion and similar suggestions from other provinces behind closed doors at the committee on financial questions. There, Ontario Premier Hepburn demanded that Ottawa convert federal loans to the provinces to ones with lower interest rates. As the federal summary noted: “Debt interest and relief alone exceed revenue collections, in spite of substantial reductions in capital and ordinary expenditure and increases in revenue, with the result that the debt of Ontario has increased each year for the past five years at an

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<sup>94</sup> Robert B. Bryce, *Maturing in Hard Times: Canada’s Department of Finance through the Great Depression*. (Kingston and Montreal: McGill-Queen’s University Press, 1986.) 182.

<sup>95</sup> “Summary of Assistance Requested of and Given By The Dominion to Province of Alberta Since September 3, 1935.” Memo dated April 16, 1937. LAC. P-1-1-10. Provincial Matters – Alberta – Miscellaneous – P – 1-1-10. RG 19. Vol. 3985. N.n. 2.

<sup>96</sup> “Summary of Assistance Requested of and Given By The Dominion to Province of Alberta Since September 3, 1935.” 2-3.

average rate of \$40-million a year.”<sup>97</sup> Hepburn angrily rejected the idea of a loan council as inherently unfair to the richer provinces: “Ontario would not only have to pay its own share but its taxpayers would also pay over 40 per cent of Ottawa’s share.”<sup>98</sup> Even in such daunting times, the richer provinces would not accept mechanisms that put its taxpayers on the hook for other provinces’ debts. The moral appeal for more fiscal aid was reaching its limits.

*The Globe’s* Marchington noted that the loan council generated “most of the contention” in “candid and lively debates.”<sup>99</sup> Both Ottawa and the provinces were “reluctant to part with sources of revenue,” he added, but the provinces were “more clamorous than before for either a share of some of the Dominion income or for the assumption by the Dominion of more of their burdens.”<sup>100</sup> They were deadlocked.

When Hepburn discovered that Dunning would not provide debt relief for his province, he was disgusted: He eventually left the conference before the concluding plenary session. Within days, back in Toronto, he would introduce the first provincial income tax “to raise between \$12 and \$14 million, the approximate cost of relief.”<sup>101</sup> Meanwhile, it was left to his Attorney General Arthur Roebuck to pass on the Premier’s complaints, including Ottawa’s failure to refinance provincial and

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<sup>97</sup> “The Dominion-Provincial Conference, December 1935 – Sub-Conference on Financial Questions,” December 15, 1935 Confidential memorandum by “Mr. Skelton.” Bank of Canada Archives, Department of Bank Operations fonds, file PF1 – 2 Vol. 1, Nov. +15, pps. 1-2.

<sup>98</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*. 249.

<sup>99</sup> “Hepburn Returns Dissatisfied With Ottawa Parley” *The Globe* on Saturday, December 14. 1935. p. 2.

<sup>100</sup> “Hepburn Returns Dissatisfied With Ottawa Parley”

<sup>101</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*, 252.

municipal debts. “That [latter issue] is a great problem.”<sup>102</sup> It is no wonder that Finance Minister Dunning reported that, given “the diversity and importance of the problems,” the delegates in that committee could not reach unanimous agreement on the solutions.<sup>103</sup> Those problems were then deferred to meetings of the Permanent Committee on Financial Questions in January and then in March.<sup>104</sup>

The committee on financial questions did not – indeed, could not – come to any solutions for the unequal financial positions and fiscal capacities of the provinces. They also could not agree on the need for a national loan council to ease those inequalities. Nor could they resolve any duplication of taxation. The Premiers maintained that they could only balance their budgets – on their present scale – if Ottawa transferred “certain sources of revenue now belonging to or made use of by the Dominion.” *Or*, if the Dominion assumed “a larger portion of the cost of unemployment relief, and possible certain other governmental services.” *Or*, if Ottawa refinanced outstanding provincial and municipal debts – perhaps under Dominion guarantee – so that the annual interest charges could be reduced.<sup>105</sup> The first two measures would have ongoing implications – and they would almost certainly have required constitutional change. The last change – refinancing those

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<sup>102</sup> Attorney General Arthur Roebuck, Proceedings of Closing Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings*. (Ottawa: J. O. Patenaude, I.S.O., Printer To The King’s Most Excellent Majesty, 1936) p. 50.

<sup>103</sup> Report of the Committee on Financial Questions in *Dominion-Provincial Conference 1935: Record of Proceedings*. (Ottawa: J. O. Patenaude, I.S.O., Printer To The King’s Most Excellent Majesty, 1936) 45.

<sup>104</sup> “Summary of Assistance Requested of and Given By The Dominion to Province of Alberta Since September 3, 1935.” Memo dated April 16, 1937. LAC. P-1-1-10. Provincial Matters – Alberta – Miscellaneous – P – 1-1-10. RG 19. Vol. 3985. N.n. p. 3.

<sup>105</sup> Report of the Committee on Financial Questions in *Dominion-Provincial Conference 1935: Record of Proceedings*. (Ottawa: J. O. Patenaude, I.S.O., Printer To The King’s Most Excellent Majesty, 1936) 44.

debts – understandably unsettled Mackenzie King. He would not undertake such major commitments – despite Hepburn’s anger.

In the end, Dunning told the final plenary session that the real solution to the problem of public finance was an increase in national income. He did not say how that could be accomplished. No one even mentioned the idea that Ottawa might surrender control over key chunks of revenue – and create a program of permanent transfers to the poorer provinces. An unconditional transfer to equalize revenues was unthinkable – and basically unaffordable – then.

There were no sweeping conclusions – although another subcommittee did unanimously approve the establishment of a National Employment Commission. As King told the Conference in his concluding remarks, the national commission “would have supervision of unemployment relief and [its] duty would be by co-operation with public bodies and in other ways to find work for the unemployed.”<sup>106</sup> He then piously quoted from the Liberal Party’s platform: “As permanent measures the Liberal party is pledged to introduce policies which will serve to provide employment by reviving industry and trade.”<sup>107</sup> King vowed to establish the commission, and to consult with the provinces on its personnel. He had basically deferred the problem.

And that subdued outcome suited King perfectly. There was no pressure to do anything when Parliament and the provincial legislatures had not unanimously endorsed any major recommendations. Far from it. Instead, in the plenary closing

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<sup>106</sup> Dominion-Provincial Conference, 1935, final session, Friday, December 13, 1935. *Dominion-Provincial Conferences*, December 9-13, 1935. (Ottawa: Edmond Cloutier, King’s Printer, 1951) p. 63.

<sup>107</sup> Dominion-Provincial Conference, 1935, final session, Friday, December 13, 1935..

session, King first suggested that the participants should eventually find a way to get rid of special grants – but he did not say how. He did specify that the municipalities “should *not* be relieved of all responsibility in the matter of relief or of a sense of their responsibility.” He added, carefully reflecting the prevailing concerns about dependency: “It would be a mistake, from many points of view, were the impression to get abroad that they [the municipalities] no longer were responsible.”<sup>108</sup>

Instead, the Prime Minister made his grand gesture: “We are prepared to share with the provinces the burden of responsibility in the matter of relief to a greater extent than has thus far been done.” King added that the proposed National Employment Commission could even oversee the expenditures on relief so “public moneys may be voted with a greater sense of security.”<sup>109</sup> Despite that last-minute concession, there had been little progress in dealing with the fiscal inequalities of the poorer provinces – or the damaging rifts in social cohesion.

King had very little intention of doing much anyway. Just before he went into that last plenary session on Friday, December 13, the Prime Minister had strolled into a cabinet meeting. There, he had found that “a considerable section” of his cabinet wanted to make large grants “to meet what they thought was expected by the public and the provinces.” King squashed those last-minute hopes of a federal rescue package for the provinces, the municipalities or ordinary Canadians. As he told his diary, he warned them: “We had to do a number of unpleasant things if the country

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<sup>108</sup> Proceedings of Closing Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings*. (Ottawa: J. O. Patenaude, I.S.O., Printer To The King’s Most Excellent Majesty, 1936) 47. *My italics*.

<sup>109</sup> Proceedings of Closing Day Plenary Session in *Dominion-Provincial Conference 1935: Record of Proceedings*. 47-48.

was ever to get ahead, and now was the time to get down to rock bottom.”<sup>110</sup> But, under cabinet pressure, he did make that one concession on relief. After the conference adjourned, King specified that relief grants would increase by seventy-five per cent for three months. At the end of March 1936, convinced that governments had to tighten up their “indiscriminate relief process,” he would cut those grants by twenty-five per cent.<sup>111</sup>

But the Prime Minister could not have missed the poorer provinces’ claim: They needed more revenues – or the federal government would have to shoulder more responsibilities. It was like a broken record. The inequality and the desperate public needs were crushing them.

King’s small gesture to increase relief grants was clearly intended to buy peace. As he told his diary, the cabinet had agreed before the plenary closing session “that nothing would be approved or endorsed that might come from any of the sub-conferences, and that no commitments of any kind would be made” with the exception of the offer to increase relief grants.<sup>112</sup> That increase would be conditional on allowing the Dominion Commission on Employment to supervise *all* relief expenditures. (This did not happen.) “Those present,” wrote King, “agreed that *if I*

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<sup>110</sup> Diary of William Lyon Mackenzie King, Friday, December 13, 1935.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=16728>

<sup>111</sup> As quoted in James Struthers, *No Fault of Their Own: Unemployment and the Canadian Welfare State, 1914-1941* (Toronto: University of Toronto Press, 1983) p. 148.

<sup>112</sup> Diary of William Lyon Mackenzie King, Friday, December 13, 1935.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=16728>

*could get away with that*, at the afternoon session, it would be a real achievement.”<sup>113</sup>

Academics have proffered reasons for King’s delay at this Conference – even though the problems with fiscal inequality had been starkly laid out for his ministers. James Struthers concludes that Prime Minister Mackenzie King refused to act boldly against unemployment in the late 1930s because he viewed unemployment as “primarily a provincial or local matter”: “The constitution provided the excuse but not the reason for [his] inaction.”<sup>114</sup> That was certainly a factor in King’s reasoning. Historian Roger Riendeau depicts King as a politician who was highly responsive to voter pressure and polls.<sup>115</sup> The beleaguered provinces and their voters had not mustered enough collective clout in 1935 to demand – and get – action. At the end of the day, King drew odd comfort from the fact that there were only seven CCF MPs.

But many historians minimize the constraints and considerations of the federal system that King understood only too well. The Prime Minister was a devious, calculating and self-aggrandizing politician – but he was also shrewd. He recognized the need for economic and social balance that federations require – and he did not

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<sup>113</sup> Diary of William Lyon Mackenzie King, Friday, December 13, 1935. My italics. <http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=16728>

<sup>114</sup> James Struthers, *No Fault of Their Own: Unemployment and the Canadian Welfare State, 1914-1941* (Toronto: University of Toronto Press, 1983) 10.

<sup>115</sup> Roger Riendeau, *A Brief History of Canada* (Markham, Ontario: Fitzhenry & Whiteside: 2000) 234. As Riendeau notes about King’s conduct in wartime: the Prime Minister became “even more interested in social welfare measures when a public opinion poll in September 1943 indicated that the CCF [Co-operative Commonwealth Federation] had edged past the Liberals and Conservatives in popularity.”

want to convert Ottawa into the banker of last resort. He would also absorb the lesson when the Judicial Committee of the British Privy Council rejected most elements of Bennett's New Deal as unconstitutional. The explanation of political scientists Richard Simeon and Ian Robinson comes closest to the truth: as I have explained, during the Depression, the Prime Minister adopted a strategy of "minimal federal activity, informed by his conviction that the principal threat to national unity lay in French-English conflict."<sup>116</sup> The Prime Minister distrusted the provinces – but he was also wary of triggering a fratricidal political war among them and with Ottawa.

### **The Crisis Deepens**

A month after the December 1935 Conference, provincial representatives gathered in Ottawa for a meeting of the permanent committee on financial questions – and the model of the Australian Loan Council idea was revived. But the discussion of the issue was "limited and vague."<sup>117</sup> Meanwhile, the first province to buckle under the financial strain was Alberta. But it would only submit to a council if it would "not affect our autonomous rights... We would sincerely trust that in the best interest of the whole Dominion situation no default would be forced upon us."<sup>118</sup>

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<sup>116</sup> Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism* (Toronto: University of Toronto Press, 1990) p. 82.

<sup>117</sup> Bank of Canada Archives, Department of Bank Operations fonds, "The National Finance Council" memo of January 21, 1936. File 2B- 400, Volume 1, Box 63. Signed Ask (Alex "Sandy" Skelton). 1.

<sup>118</sup> Summary of Assistance Requested of and Given By The Dominion to Province of Alberta Since September 3, 1935." Memo dated April 16, 1937. LAC. P-1-1-10. Provincial Matters – Alberta – Miscellaneous – P – 1-1-10. RG 19. Vol. 3985. N.n. 4.



Ottawa overlooked those caveats – and granted a federal loan of \$1.58-million to meet bond maturities on January 15, 1936. But it told the province that there would be no assistance with its upcoming April 1 maturity unless it accepted the Loan Council. The two sides were at a standstill. Who was at fault? Former federal advisor Douglas H. Fullerton is brisk. Ottawa showed no “generosity of spirit...Doctrinal, political, and constitutional considerations affected the federal position.... it was patronizing, condescending and arrogant.” The problem for the Prairie Provinces, he adds, was not so much economic mismanagement but “an abnormal and persistent combination of drought and seriously depressed world markets for wheat.”<sup>119</sup>

Meanwhile, Bank of Canada bureaucrats were rethinking their Loan Council plan. Research Chief Alex Skelton was getting a better sense of the careful balancing act required to maintain Canada’s federation – and the damage that the proposed Loan Council based upon the Australian model could cause. He had written a two-page memo that warned against the compulsory surrender of provincial control to the proposed Loan Council as “impractical” on October 8, 1935 – before King was elected.<sup>120</sup> In a second remarkable 16-page memorandum on March 20, 1936, Skelton explained that the plan for the Loan Council “should be greatly modified, or better still, dropped entirely (if the Dominion Government can back out gracefully).”<sup>121</sup> The Loan Council would become a permanent institution. “[But] the

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<sup>119</sup> Douglas H. Fullerton, *Graham Towers And His Times*, 75-76.

<sup>120</sup> Bank of Canada Archives, Department of Bank Operations fonds, Canadian Loan Council, File 2B, Box 400, B400, Volume 1, Box 63. Dated 10.VIII.35 and signed ASk (Sandy Skelton) 1.

<sup>121</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291 Secretary, PF1-1, Volume 1. Covering letter for Federal-Provincial Relations, Memorandum. 1.

general theories of federalism and of democracy, and the specific exigencies of Canadian politics, demand that the provinces shall always have an alternative.”<sup>122</sup> Federal ultimatums were never welcome.

Worse, the dangers of federal control over the poorer provinces’ finances and borrowing were enormous – even if the existing inequalities were also perilous to the political and economic stability of the union. Saskatchewan and Manitoba were teetering on the brink of catastrophe because their export markets for agricultural products had dwindled. But the Western Provinces objected to the usurpation of their taxation powers; they viewed their difficulties as temporary while the council would be permanent; and they maintained that Dominion tariff policy had impoverished them – as opposed to their own policies. “Finally,” wrote Skelton, “the provinces may question that the dictatorship of the Dominion will be a benevolent one. The western provinces need only point to Dominion tariff policy to illustrate the subordination of their interests to the politically dominant east... There is the additional fear that a province may suffer if it should be in the opposition political camp.”

If the Dominion insisted on a loan council to address inequalities, he explained, the consequences could be terrible. Provinces might default to stop the obligation to make interest payments or the Dominion might relax its supervision – so the council would be ineffective. Worse, British Columbia and Alberta could opt for secession: “As independent states [they] could easily support their present debt structure and

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<sup>122</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291 Secretary, PF1-1, Volume 1. Federal-Provincial Relations, Memorandum. 1. 9.

could gain other material economic benefits.”<sup>123</sup> Another scenario could be catastrophic: Suppose, mused Skelton, that a province accepts the loan council, and then a provincial rights party wins the subsequent election. “A serious effort by the Dominion to realize on its security might then lead to civil war.”<sup>124</sup>

There was a downside for Ottawa, too, in this struggle to help the poorer provinces. The Dominion would assume a large liability for the Western Provinces, take responsibility for numerous local problems which were fraught “with political friction and repercussion”; and bear the blame for encouraging partial default.<sup>125</sup> “To summarize,” he added, “effective and permanent Loan Council control would destroy the federal principle, and ineffective control would simply saddle the Dominion with new liabilities.”<sup>126</sup> He had aptly captured the dangers in the federal-provincial fiscal tug-of-war – and the damage that it could do to social cohesion.

Skelton suggested that Ottawa establish a so-called National Finance Council, which would be a voluntary cooperative institution. It would include the federal finance minister, the nine provincial treasurers and the Bank of Canada – and it would offer advice and conciliation to any province that needed it. Its secretariat should have “knowledge of public finance theory and practice in general, and federal finance in particular (U. S. A., Australia, Argentine and other South America, etc.).”

Although under political supervision, non-political management would control the

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<sup>123</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291, 6.

<sup>124</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291, 6.

<sup>125</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291, 6.

<sup>126</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291 d, 7.

council itself. The provinces would “nominally maintain complete autonomy, but in practice public opinion and money market sanctions would keep them in line.”<sup>127</sup>

He could not resist adding another prescription to his call for a finance council that could assist the poorer provinces. “The immediate problems of the provinces should be met by transferring emergency expenditures and certain social services to the Dominion,” he wrote, “and with the clear understanding that the Dominion has no further responsibility to them.”<sup>128</sup> The Ottawa bureaucrats could not yet see a less centralizing way to address the strained finances of those poorer governments.

But his solution was far more politically astute than Ottawa’s insistence upon a loan council along the lines of Australia. The memo’s very wording, however, almost surely rattled the Ottawa elites. His March 20, 1936 memo in opposition to a Loan Council based on the Australian model was dynamite.

### **Alberta Defaults**

The memo certainly got Governor Towers’ attention. But it came too late for Alberta. On March 15, Alberta Treasurer Cockroft requested a federal loan of \$2.85-million – or the province would default. On March 17, Dunning replied that he had just read the Premier’s public announcement that he was reducing interest rates on those bonds – “apparently without reference to proposed loan council arrangement” – so “I do not see how I could justify to Parliament and the country the loan for

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<sup>127</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-9, 12. *My italics.*

<sup>128</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291 Secretary, PF1-1, Volume 1. Covering letter for Federal-Provincial Relations, Memorandum. 1.

which you are now asking.”<sup>129</sup> Cockroft had also suggested that Ottawa count the province’s proposed settlement of \$5-million for the use of its natural resources – a settlement that Alberta had previously spurned – against the new loans. Alberta Premier Aberhart seconded that request. Dunning refused: “As in the case of Saskatchewan the natural resources award would have to be offset against debts already owing by the provinces to the Dominion” – and Alberta owed \$24.7-million.<sup>130</sup>

Dunning reiterated that Ottawa would not help unless there was provision to oversee future provincial borrowings. The Premier replied that he could not accept that condition. Meanwhile, Saskatchewan was able to obtain Bank of Canada approval for loans because it agreed to accept the loan council – which would require a constitutional amendment to implement. On April 1, 1936, the Alberta Government defaulted on its bonds. That default would mark a generation of Depression-era Alberta politicians *and* their successors. A government of Prairie farmers who had taken pride in paying their debts was now effectively insolvent.

That episode would reverberate in Australia. On June 22, 1936, diplomats sent a unusually detailed five-page memo chronicling Alberta’s lost struggle to overcome the inequality between its revenues and its responsibilities. In particular, they concentrated on Premier William Aberhart’s refusal to go along with the federal

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<sup>129</sup> Bank of Canada Archives, Department of Bank Operations fonds, Recommendations on Dominion-Provincial Relations, B-95, 291 Secretary, PF1-1, Volume 1. Covering letter for Federal-Provincial Relations, Memorandum. 5.

<sup>130</sup> From correspondence read by Finance Minister Charles Dunning to the House of Commons on April 1, 1936 as quoted in *Eric J. Hanson's Financial History of Alberta: 1905-1950*. eds. Paul Boothe and Heather Edwards. (Calgary: University of Calgary Press, 2003) 175.

demand for a Loan Council for Alberta. (The Australians were clearly fascinated by how their model – however modified – would not work in Canada.)<sup>131</sup> The operation of a federation was clearly an ongoing preoccupation in Ottawa and Canberra.

### **The Provinces and Ottawa Still Cannot Agree on Remedies**

Meanwhile, King and British Columbia Premier Duff Pattullo were in an increasingly unpleasant standoff about the council. In early March, Pattullo had told King that he did “not think any province should be placed in the position of either accepting proposal of the Dominion without modification or reservation or being left to its own devices.”[sic]<sup>132</sup> On May 1, King explained that Ottawa had amended its proposal to mollify provincial concerns that every loan would require federal approval. If a province joined the loan council, it would need Dominion approval before it could issue securities or incur debt *abroad*; if the debt or obligation were issued in Canada, the province could proceed without the council – but those securities or debts would not have Loan Council approval.<sup>133</sup>

King was doing everything that he could to control provincial spending without offering more money or powers to the poorer provinces. Indeed, the Council would *restrict* provincial powers. But the federal guarantee of provincial debts would ease

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<sup>131</sup> Memorandum from Australian Trade Commissioner in Canada L. R. Macgregor to The Secretary, Department of External Affairs, June 22, 1936. National Archives of Australia, Canada: Internal Politics. Series number A981, Control symbol, CAN 24, Part 1, Barcode 173375, n.p. in file, p. 1-5.

<sup>132</sup> British Columbia Premier T. D. “Duff” Pattullo to Prime Minister Mackenzie King, March 14, 1936, LAC. RG19, Volume 3986. 2.

<sup>133</sup> Prime Minister Mackenzie King to British Columbia Premier T. D. “Duff” Pattullo, May 1, 1936. LAC. RG19, Volume 3986. pps. 1-4.

provincial fiscal inequality by cutting interest payments for the poorer provinces.

Pattullo replied with asperity:

I think that the course you are pursuing is too rigid and inelastic, and that your policy will not effectuate the employment of the employable of the unemployed as rapidly as could and should be done, while necessary works have to remain unfulfilled. However I have so many times explained the situation both by letter and conversation that there does not seem to be much use in pursuing the argument.<sup>134</sup>

Loan Councils as a solution to inequality in revenue-generating capacity were losing momentum – even though the poorer provinces remained hard-pressed to fulfill such responsibilities as relief payments and the interest charges on their debts. Ottawa went through the motions anyway. On May 1, 1936, Finance Minister Charles Dunning declared that the future remained “clouded” by the “uncertain” financial position of some provinces, especially the Western provinces. As *The Globe* reported, loans to the provinces had now reached \$116.5 million – and it was Ottawa’s intention “to proceed with the loan council scheme with some modifications.”<sup>135</sup>

On May 14, 1936, King’s Government introduced a resolution in the House of Commons, asking the British Parliament to amend the BNA Act “to authorize the Dominion to guarantee provincial loans on specified conditions, and to extend and clarify provincial taxing powers.” It passed the next day. But the Senate delayed it,

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<sup>134</sup> British Columbia Premier T. D. “Duff” Pattullo to Prime Minister Mackenzie King, May 6, 1936. LAC. RG19, Volume 3986. P. 2.

<sup>135</sup> “But Dunning Sees Difficult Economic Problems To Solve” *The Globe*, May 2, 1936, p. 8.

and eventually defeated it – to King’s infinite relief.<sup>136</sup> As he confided in his diary on the day that he introduced it:

I confess that I do not like the amendment...I do not like either the effort even indirectly to ‘control’ the provinces in any of their acts. I believe we might have been wiser simply to refuse to loan or guarantee – tho’ this may have brought bankruptcy. The only excuse for the present legislation is the emergency – but the legislation like other measures for the purpose may only serve to prolong it.<sup>137</sup>

On June 10, 1936, a senior official at the Bank of Canada – almost certainly Towers – submitted a version of Skelton’s proposal for a National Finance Council to Deputy Finance Minister W. C. Clark. A notation scrawled on the first page reads: “by draft – agreed with Johnson – subsequently modified a little by Clark but proposal turned down.”<sup>138</sup> [Johnson was almost certainly Treasury Solicitor David Johnson who reported to Clark.]<sup>139</sup> This clumsy mechanism to ease the fiscal pressures on the poorer provinces – freeing more money for program spending – would not work.

## The Mutual Interest Continues

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<sup>136</sup> Robert B. Bryce, *Maturing in Hard Times: Canada’s Department of Finance through the Great Depression*.189.

<sup>137</sup> Diaries of William Lyon Mackenzie King for Thursday, May 14, 1936. His emphasis.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=16986&>

<sup>138</sup> Bank of Canada Archives, Department of Bank Operations fonds, Provincial Financing – General – 1934- January 1937. “Part I – National Finance Council – June 10, 1936.” File PF 1- Volume 1 – Research B1. 1.

<sup>139</sup> Robert B. Bryce, *Maturing in Hard Times: Canada’s Department of Finance through the Great Depression*. On p. 227, Bryce describes the staffing of Clark’s office.



The Australians were watching Canada closely because the parallels to their situation could be striking. On June 9, 1936, Trade Commissioner L. R. Macgregor sent a detailed memo chronicling the journey of the proposed Loan Council from the Dominion-Provincial Conference of December 1935, which sought a solution to “vexatious provincial financial questions,” to its defeat in the Senate on June 9, 1936. “There appears, however, to be pronounced public support of the Senate’s attitude,” Macgregor explained, “although the Government has been threatening ‘reform’ of the Senate.” He added that Canadians could not amend their own Constitution because “the French-Canadian minority are jealous of the rights assured to them under that Imperial Statute.” [sic]<sup>140</sup> The Australians really did not understand the force of provincial cultural and language rights – and the need for them – in a federation founded by different nations.

The fate of Bennett’s New Deal also preoccupied the Australians. On June 17, 1936, Macgregor had cabled Canberra when the Supreme Court of Canada had rejected key elements of Bennett’s ambitious package including the Employment and Social Insurance Act. Macgregor’s cable noted that several Commonwealth Government ministries had expressed interest in the deal’s fate.<sup>141</sup> In turn, Canberra officials informed Australian diplomats in Ottawa that two United Kingdom experts were scheduled to visit Australia to discuss the introduction of

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<sup>140</sup> Memorandum from Australian Trade Commissioner in Canada L. R. Macgregor to The Secretary, Department of External Affairs, June 9, 1936, National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol, CAN 13, Part 2, Barcode 173360, n. p. in file, pp. 2, 1.

<sup>141</sup> Memorandum from Australian Trade Commissioner in Canada L. R. Macgregor to The Secretary, Department of External Affairs, cable June 17, 1936, followed by full letter of June 17, 1936. National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol, CAN 13, Part 2, Barcode 173360, n.p. in file, p. 1.

similar unemployment insurance. So the Canberra Government would appreciate “all the ideas and information on the subject it can procure” from Ottawa.<sup>142</sup>

The Australian diplomats also forwarded a June 20, 1936 article from the *London Times* headlined “Federal Powers in Canada,” which referred to the Unemployment Insurance decision and to the United States Supreme Court decision that found elements of President Franklin Roosevelt’s New Deal to be unconstitutional. “In Canada, as in the United States,” the article noted pointedly, “necessary social and economic readjustments are hampered by a written Federal Constitution setting hard and fast boundaries to the authority of the national Government and Parliament.”<sup>143</sup> The lesson for Canberra was clear: Federalism itself – and its required constitution – was an impediment to the expansion of social programs to meet 20<sup>th</sup> century needs.

Not everyone advocated the expansion of the social security network. The diligent Australians forwarded an extract from an article by Canadian Manufacturing Association executive H. W. Macdonnell, who reviewed the state of social legislation in Canada for the CMA. “The reason taxes are so heavy is not because ambitious kings want to acquire new territory [as in the past],” Macdonnell explained, “but because we are spending money like drunken sailors on social services.” People were losing their sense of self-reliance and thrift. Young people

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<sup>142</sup> Memorandum from The Secretary, Department of External Affairs, to Australian Trade Commissioner in Canada L. R. Macgregor, June 18, 1936, National Archives of Australia, Canada – Internal Politics, Series A981, Control Symbol CAN 24 Part 1, Barcode 173375, p. 1.

<sup>143</sup> “Federal Powers In Canada”, in the *London Times* of Saturday, June 20, 1936, National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol, CAN 13, Part 2, Barcode 173360, n. p. in file, 1.

were letting their elderly relatives depend upon relief instead of supporting them.

“The whole object and trend of this new point of view is to teach the individual not to rely on himself nor even look to his family, but to look to the State.”<sup>144</sup>

That fear of dependency among individuals and provinces would run like a jarring contrapuntal melody alongside proposals to expand social security – and to tackle provincial fiscal inequality – in the name of social cohesion throughout the decades. There would be little further expansion anyway – with the exception of Unemployment Insurance and Family Allowances in Canada in wartime – until all federation partners could afford them. The two federations were groping their way through the trials of federalism and the difficulty of adjusting their links with Britain. Canada and Australia would become even closer over the remainder of the decade.

### **Ottawa Seeks New Options**

Meanwhile, Ottawa was scrambling to find a Plan B after the defeat of the Loan Council and the rejection of the National Finance Council. In the summer of 1936, the Bank of Canada asked University of Toronto economist A. E. “Dal” Grauer to do a study on the distribution of taxing powers in Canada. His report on August 30, 1936 recommended the centralization of income tax. “Wealth and income tends to arise

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<sup>144</sup> “A Review of Social Legislation in Canada: Motives Which Have Led to the Passing of Social Legislation – Some of the Enactments” by H. W. Macdonnell, secretary of the Industrial Relations Department of the Canadian Manufacturing Association, July 1936. Covering Memorandum by Assistant Australian Trade Commissioner R. R. Ellen to The Secretary, Department of External Affairs, July 10, 1936, National Archives of Australia, Canada: Internal – Part 1, Series number A981, Control symbol, CAN 21, Part 1 Barcode 173371, n. p. in file, p. 1.

in Ontario and Quebec,” the report observed. So “it seems *equitable*...that the main direct taxes on income and wealth (the income and death taxes) should be vested in the central government as an offset to these regional inequalities.”<sup>145</sup> Grauer suggested that the Dominion might offer to share those revenues to induce provincial cooperation “on the understanding that the provinces would get more revenue than at present.”<sup>146</sup>

Ottawa might even have to make equal per capita payments to each province. Unfortunately, that would elicit objections from the wealthier provinces because their taxpayers contributed more money per capita to Ottawa than the taxpayers in the poorer provinces. That was a pivotal notion. Finally, “would the question of *need* enter, and if so, how would it be evaluated? Some of the provinces would certainly bring up the plea of special need.”<sup>147</sup> Inequality was out in the open. Federal bureaucrats were discussing the curse of unequal provincial revenues – even if they could not solve it.

Grauer’s report opened a new path. Bank of Canada Research Chief Skelton and Governor Towers “rather quickly concluded that the best way of securing major improvements in the division of responsibilities for expenditures and for revenue

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<sup>145</sup> “The Distribution of Taxing Powers in Canada” by A. E. Grauer, August 30, 1936, Bank of Canada Archives, Department of Bank Operations fonds, B07- File 28 – 170, Vol. 1 1935-1959. P. 49.

<sup>146</sup> “The Distribution of Taxing Powers in Canada” by A. E. Grauer, August 30, 1936, Bank of Canada Archives, Department of Bank Operations fonds, B07- File 28 – 170, Vol. 1 1935-1959. 49, 57.

<sup>147</sup> “The Distribution of Taxing Powers in Canada” by A. E. Grauer, August 30, 1936, Bank of Canada Archives, Department of Bank Operations fonds, B07- File 28 – 170, Vol. 1 1935-1959. P. 57. *My italics.*

sources would be to set up a royal commission of inquiry.”<sup>148</sup> After talks with Finance Minister Dunning and Deputy Finance Minister Clark, Towers drafted a succinct five-page memo, capturing the incipient pressures for expanded social security that were already jostling against provincial cultural and linguistic identities: The proposed commission would “examine the economic basis of Confederation with special reference to modern developments in the field of governmental responsibilities for social and other expenditures and, in particular, the division of these new burdens between the various taxing authorities of the Dominion.”<sup>149</sup>

The commission would also look at “the most *equitable* possible distribution of the burden of taxation.”<sup>150</sup> The memo drove home the emphasis on the escalating costs of social programs: “Social expenditures, including relief, have assumed an importance never contemplated 25 years ago – still less at time of Confederation.”<sup>151</sup>

Dunning took the suggestion to King on Monday, November 16. According to his record of this conversation, King pointed out that he had suggested a royal commission during the 1930 election campaign that would have looked *beyond*

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<sup>148</sup> Robert B. Bryce, *Maturing in Hard Times: Canada's Department of Finance through the Great Depression*, 190.

<sup>149</sup> “Memorandum: Notes On A Possible Commission Of Enquiry, Confidential, Original sent to Mr. Dunning with letter,” October 20, 1936, Bank of Canada Archives, Department of Bank Operations fonds, Towers Memoranda, file 1, 1935-1937, 0-51. p.1.

<sup>150</sup> “Memorandum: Notes On A Possible Commission Of Enquiry, Confidential,,1. My italics.

<sup>151</sup> “Memorandum: Notes On A Possible Commission Of Enquiry, Confidential, Original sent to Mr. Dunning with letter,” October 20, 1936, of Canada Archives, Department of Bank Operations fonds, Towers Memoranda, file 1, 1935-1937, 0-51. p. 2.

economic issues. Now the public might view any commission “as a way of avoiding facing the financial situation which has developed. I thought it better to seek to meet that situation some other way for the present at least, having regard to the matters to be given attention in the first half of next year.”<sup>152</sup>

Undeterred, on November 23, 1936, Skelton wrote a dramatic seven-page memo, laying out “the case for a royal commission inquiry on provincial finances.”<sup>153</sup> The Depression had driven home the liabilities of a sixty-year-old constitution that included “an extensive borderland where jurisdiction, taxation and expenditure may, and do, now overlap.”<sup>154</sup> He wanted to replace “the present Topsy-like structure of Canadian public finance with one constructed on rational and business-like lines.”<sup>155</sup> Other federations had different models, he observed: Australia enforced centralized control of all government borrowing; the United States concentrated “deficit financing in the hands of the federal body with the most elastic revenues, control of monetary policy, and the best credit.”<sup>156</sup>

Canada could not keep drifting into an ever-more-unequal situation, paralyzed by its inability to amend its Constitution. Given the conditions of the poorer provinces, “serious strains” would soon plague the federation, including “secession

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<sup>152</sup> Diary of William Lyon Mackenzie King, Monday, November 16, 1936.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=17409>

<sup>153</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” ASk [Sandy Skelton], November 23, 1936. Bank of Canada Archives, Department of Bank Operations fonds, File 2B, B400, Vol. 1, Box 63. p. 1.

<sup>154</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” ASk [Sandy Skelton], November 23, 1936. Bank of Canada Archives, Department of Bank Operations fonds, File 2B, B400, Vol. 1, Box 63. p. 3.

<sup>155</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” 3.

<sup>156</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” 4.

or default of some of the more exposed units.”<sup>157</sup> That, in turn, would “impoverish the central provinces and ruin their credit.”<sup>158</sup> Central Canada should view a constitutional overhaul as in its interests: A continuing system of federal “loans” to bankrupt provinces or purchases of provincial securities would be “only a palliative of the most deceptive kind, and Ontario and Quebec would have to bear the cost *with no compensating advantages.*”<sup>159</sup>

Decades before formal equalization, Skelton captured the dangers of resentment among the richer provinces for their poorer kin. Sharing was not an idealistic venture: There had to be something more in any deal for every province – if only to safeguard social cohesion and ensure political stability. He concluded with a flourish: “Ostrich-like tactics will no longer do; 1937 should become as memorable a date in Canadian history as 1867.”<sup>160</sup>

For months, this debate had gone on behind closed doors. Such radical proposals had not leaked into the press or other institutions. But the discussions among financial bureaucrats and politicians would soon percolate into the public realm.

### **Ottawa Accepts That It Has to Take Action**

There were portents in the news. On December 9, 1936, the well-connected Canadian Chamber of Commerce called for the appointment of a Royal Commission “to examine the whole scheme of national finance...[including] a survey of

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<sup>157</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” 5.

<sup>158</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” 6.

<sup>159</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” 6-7. My italics.

<sup>160</sup> “The Case For A Royal Commission Inquiry On Provincial Finances,” 7.

Governmental expenditures, sources of revenue in the Provinces and the Dominion for the purpose of suggesting curtailment and producing balanced budgets.”<sup>161</sup> The Chamber had almost certainly learned of Ottawa’s behind-the-scenes discussions.

That same day, Dunning again welcomed the members of the Subcommittee on Financial Questions – now renamed the National Finance Committee – to Ottawa. It would be this committee’s first and only meeting, running from the 9<sup>th</sup> to the 14<sup>th</sup>. And it would be a game-changer. On the eve of that gathering, there was some good news: Bank of Canada Governor Towers noted a “tendency towards progressive improvement” in Dominion and provincial bond issues throughout the year.<sup>162</sup>

But such guarded optimism could not compete with the alarming news that Manitoba and Saskatchewan were on the brink of default. Manitoba Premier John Bracken asked Towers how his province should go about reducing the interest on its bonds. “The final responsibility for taking a decision on the amount of the interest reduction,” Bracken reassured Towers, “would rest with Manitoba.”<sup>163</sup> When Dunning suggested that the Bank of Canada could serve as the province’s official financial advisor, Towers demurred – the bank could not become an adviser

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<sup>161</sup> “National Finance Probe is Asked” [sic] in *The Globe* on December 9, 1936. p. 7.

<sup>162</sup> “Review Covering (A) Dominion and Provincial Financing During Recent Past (C) Trend of Interest Rates – Long Term and Short Term (B) Present Condition of Investment Market and Probable Immediate Future For Dominion-Provincial Conference, December 1936,” (sic) Bank of Canada Archives, Department of Bank Operations fonds, Towers Memoranda, 1935-1937, 0-51. 1.

<sup>163</sup> “Memorandum of conversations with Provincial representatives at the time of National Finance Committee meetings and subsequently – December 9-14, 1936,” Bank of Canada Archives, Department of Bank Operations fonds, Towers Memoranda, 1935-1937, 0-51. P. 1.



just prior to a default – and so did Bracken. Towers' conversation with Saskatchewan Premier W. J. Patterson went along "very much the same lines."<sup>164</sup>

In public, Dunning put a brave spin on the encounter. The proceedings were a "complete success" – even though there was "little progress" on such propositions as the "complete nationalization of the Bank of Canada, increased diversion of national revenues to the Provincial Treasuries and creation of a Royal Commission to study the whole picture of Dominion and Provincial relations under the Confederation pact."<sup>165</sup> The notion of a Royal Commission was out in the open.

Over the holiday season, the situation became more dramatic as the pressure for real change escalated. On January 4, 1937, Towers wrote to Dunning that any attempt to offer a temporary guarantee of interest on provincial bonds would be "a very dangerous form of liability for the Dominion."<sup>166</sup> Crucially, he added that the only way to deal with the situation was through temporary grants coupled with a Royal Commission investigation "of the whole situation."<sup>167</sup> Towers had wrestled with other ideas, and gotten nowhere.<sup>168</sup> There had to be "some rearrangement of

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<sup>164</sup> "Memorandum of conversations with Provincial representatives at the time of National Finance Committee meetings and subsequently – December 9-14, 1936," 3.

<sup>165</sup> William Marchington, "Ottawa Highlights" in *The Globe* on December 15, 1936. p. 5.

<sup>166</sup> Bank of Canada Governor Gordon Towers to Finance Minister Charles Dunning, Confidential letter of January 4, 1937, Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1, Volume 1, p. 1.

<sup>167</sup> Bank of Canada Governor Gordon Towers to Finance Minister Charles Dunning, Confidential letter of January 4, 1937d, 3.

<sup>168</sup> In his June 16, 1938 budget speech, Finance Minister Charles Dunning referred to "substantial" federal, provincial, municipal and private corporation bond sales in 1937 that raised almost \$702-million – of which \$476-million was earmarked for refunding. Despite the "heavy volume" of Dominion financing in 1937, he added, interest yields on bonds were low. Canada: Budget Speech delivered by Hon. Chas. A.

financial powers and responsibilities which will enable the various Governments to function more effectively within their own domains.”<sup>169</sup>

The debate continued. A day later, in a conversation with Dunning, Towers suggested ways to protect the Dominion if Ottawa opted for a temporary guarantee of provincial bonds. In response, Dunning noted that Ottawa could offer to act as a financial advisor – if the province asked for assistance. But Dunning also affirmed his desire for a Royal Commission: “Even if one was not agreed upon at the present time, he hoped that it would come later, say after the Coronation.”<sup>170</sup> (King George VI would be crowned on May 12, 1937.)

The flurry of memos continued into the next week. On Sunday, January 10, 1937, Skelton wrote that “a passive policy of non-interference” as Manitoba and Saskatchewan toppled “would be neither virtuous, sound, or expedient.”<sup>171</sup> Ottawa would be “sidestepping responsibilities which are properly those of the national government, i.e. widespread crop failure, national business depression and relief, loss of foreign markets, and *a moral responsibility* arising from the last six years’

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Dunning, Minister of Finance, Member for Queens, Prince Edward Island in the House Of Commons, June 16, 1938. The National Archives of Australia, Canada – Internal Politics, Series A 981, Control symbol CAN 24 Part 1, Barcode 173375. 54-55. I am grateful to historian Shirley Tillotson who confirmed that the federal bond prospectus in 1937 makes it “very clear that the Dominion is NOT taking any responsibility for provincial bond issues.” In other words, Ottawa might have discussed the possibility of supporting provincial bonds *in theory* – but the idea went nowhere in reality.

<sup>169</sup> Bank of Canada Governor Gordon Towers to Finance Minister Charles Dunning, Confidential letter of January 4, 1937, 4.

<sup>170</sup> “Memorandum of conversation with Mr. Dunning, Tuesday, January 5, 1937” Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1, Volume 1, 2.

<sup>171</sup> “Provincial Default: The Alternatives, January 10, 1937,” Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1, 1.

assistance.”<sup>172</sup> The “most desirable alternative” was a “Royal Commission instructed to recommend changes in the present distribution of revenues and expenditures between provincial and Dominion governments.”<sup>173</sup> In the interim, Saskatchewan would need an interim grant; Manitoba might be able to survive for the next six to nine months. If this were impossible, Skelton suggested Dominion intercession with some guarantee of repayment for itself and the bondholders.

There were more memos on how to cope with the desperate fiscal inequalities among the poorer provinces. Back and forth, the bureaucrats wrote to each other and to their political masters, struggling to find a way out of the morass. On Monday, January 11, Bank of Canada Secretary Donald Gordon wrestled with how to handle a temporary provincial default: the Dominion needed to provide “a strong gesture of compromise designed to show a recognition of an unusual situation and a desire to meet it in a fair minded and helpful way.”<sup>174</sup> Gordon suggested that Ottawa offer to guarantee the interest on any bonds that were turned in for a reduced interest rate for five years. Alberta could qualify for this plan as well if it opted for a *temporary* cut – as opposed to its current *permanent* cut – in interest rates.

On January 12, the Bank’s securities advisor K. A. “Ken” Henderson wrote a brutally frank memorandum about Western Financial Problems – and the notion of

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<sup>172</sup> Bank of Canada Governor Gordon Towers to Finance Minister Charles Dunning, Confidential letter of January 4, 1937, 1. My italics.

<sup>173</sup> Bank of Canada Governor Gordon Towers to Finance Minister Charles Dunning, Confidential letter of January 4, 1937d, 2.

<sup>174</sup> “Western Provinces, January 11, 1937,” Confidential memo by Secretary Donald Gordon. Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1. 1.

national sharing: “The Provincial economies have broken down in attempting to expand government services (including relief) during a period of reduced revenue.... *In times of depression it is much easier than at other times to develop a body of public opinion to the view that one should take from the ‘haves’ and give to the ‘have-nots’ without regard to the justice or the ultimate result of such action.*”<sup>175</sup>

In effect, Henderson recognized the increasing pressure on governments to maintain and perhaps expand social services during the endless Depression – and the need to find equalizing revenues for the poorer provinces among the taxpayers of the richer provinces. The situation demanded fiscal redistribution.

A day later, Towers wrote a memo on the Prairie Provinces’ predicament – and then he rewrote the memo at Dunning’s request. As Towers’ notation says, Dunning wanted “only suggestions of procedure covering temporary guarantee of interest, and [so it] should not include discussion of the pros and cons.”<sup>176</sup> He concluded that the Dominion should “not tacitly encourage and participate in a permanent cut in present contractual obligations.”<sup>177</sup> It should not encourage the provinces to walk

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<sup>175</sup> “Western Financial Problems, January 12, 1937,” Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1. pps. 1, 1-2. My italics.

<sup>176</sup> “Notes on Prairie Provinces situation based on decision that a temporary guarantee of interest is the type of arrangement which should be attempted” January 12, 1937. Covering memo written January 15, 1937. Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1. 1.

<sup>177</sup> “Notes on Prairie Provinces situation based on decision that a temporary guarantee of interest is the type of arrangement which should be attempted” 2.

away from their debts. Instead, it should undertake to make available “sufficient funds to cover the reduced interest on the securities concerned.”<sup>178</sup>

The seriousness of the situation was becoming *very* clear. On Sunday, January 17, 1937, Towers, Dunning and Deputy Finance Minister Clark met with Manitoba Premier Bracken and Saskatchewan Premier Patterson. Dunning and Clark toyed with the idea of a temporary reduction in interest coupled with the Dominion’s guarantee of those reduced rates. Someone – Towers did not record who – “suggested that the Bank of Canada should examine the situation to enable the Dominion to make up its mind.”<sup>179</sup> Bracken wanted quick action. Towers concluded that both sides wanted “a quick whitewash and Dominion endorsement of rate cuts.”<sup>180</sup> That would not happen.

Instead, on Monday, January 18<sup>th</sup>, Towers told Dunning and Clark that a Dominion endorsement of rate cuts was dangerous, particularly if the Dominion refused to appoint a Royal Commission. A day later, in response to Towers’ probing, Bracken agreed to a Bank of Canada examination of his province’s affairs. Privately, Towers had already upped the ante. “Our only recommendation is a cash grant and Royal Commission,” he wrote in a memo that day to an undisclosed recipient, probably Clark. “Let the politicians take full responsibility for the selection of the alternative if they will not follow our advice, and let us keep entirely free from supplying them

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<sup>178</sup> “Notes on Prairie Provinces situation based on decision that a temporary guarantee of interest is the type of arrangement which should be attempted” 3.

<sup>179</sup> “Memorandum of Conversations, Sunday, January 17, 1937 – Conversation with Messrs. Dunning, Bracken, Patterson and Clark,” Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1. 1.

<sup>180</sup> “Memorandum of Conversations, Sunday, January 17, 1937 – Conversation with Messrs. Dunning, Bracken, Patterson and Clark,” 1.

with arguments for the solution they adopt.”<sup>181</sup> On Tuesday evening, despite his preference for a Royal Commission, Towers told Dunning that the Bank itself might do a fast inquiry if King agreed.

On Thursday, January 21, the politicians and the bureaucrats sat down to deal with the overwhelming inequalities of federalism which had left the poorer provinces with too few sources of adequate revenues and too many obligations such as massive relief payments that no one anticipated at Confederation. Towers first met with Dunning and King in the morning to discuss the West’s pressing debt crises. King asked Towers for a Bank of Canada report on the situation. Towers initially explained that such reports might embarrass the Bank – and embroil it in political controversy. As King recorded in his diary, Towers then “came back to the old idea of grants being made to the Provinces with a Commission to investigate financial relations.”<sup>182</sup> King said that there was “no chance” of a commission. He also admitted that reports on the poorer provinces might embarrass the Bank.<sup>183</sup> Later that day, Towers went back to King – and offered to do the reports. As Towers later explained: “In the circumstances it was more reasonable to accept this risk [of

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<sup>181</sup> “Bank of Canada and the West,” January 19, 1937, hand-written notation “Written by the Governor.” Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1. 1.

<sup>182</sup> Diaries of William Lyon Mackenzie King, Thursday, January 21, 1937. <http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=17626>

<sup>183</sup> Diaries of William Lyon Mackenzie King, Thursday, January 21, 1937.

embarrassment] than to refuse an examination and probably precipitate immediate action on the part of the provinces.”<sup>184</sup> King accepted that offer.

With that reversal, the Bank of Canada took action. Towers sent Skelton on a lightning tour of two Prairie provincial capitals. In April, at the request of former Prime Minister R. B. Bennett and the Alberta Government, Skelton also scrutinized that government’s finances. The three reports were vivid – and devastating. In the Manitoba report, which was made public on February 15, 1937, Skelton wrote that his task went beyond ensuring that the province could “pay its way somehow or other in the next few months.”<sup>185</sup> Rather, the Bank had to consider whether Manitoba would become an ongoing burden on the rest of the country – “a burden of a kind which produces no permanent alleviation to the province itself.”<sup>186</sup> He criticized the province’s decision to lower taxes from 1927 to 1930, and its large capital expenditures from 1929 to 1932.

But he concluded that during most of the decade, the province had “made strong and commendable efforts” to balance its books, to limit its debt by raising taxes, and to limit expenditures “without curtailing services to an extent which would not have been in the public interest.”<sup>187</sup> Nonetheless, revenues “are not adequate, or are not

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<sup>184</sup> “Memorandum of two conversations with Mr. King on Thursday, January 21, 1937,” Bank of Canada Archives, Department of Bank Operations fonds. Loan Councils and National Finance Council, File PF1-1, Volume 1. 1.

<sup>185</sup> Summary of the Bank of Canada report on the Financial Position of Manitoba, February 12, 1937. Douglas Alexander Skelton Fonds, Queen’s University Archives, Box 1, File 17. p. 23.

<sup>186</sup> Summary of the Bank of Canada report on the Financial Position of Manitoba, February 12, 1937, 24.

<sup>187</sup> Summary of the Bank of Canada report on the Financial Position of Manitoba, February 12, 1937. Douglas Alexander Skelton Fonds, Queen’s University Archives, Box 1, File 17. p. 22.

sufficiently elastic, to enable the province to bear the burdens which modern practices of government and the force of the depression have placed upon it.”<sup>188</sup>

The Saskatchewan report, which was made public on March 15, 1937, depicted that province in worse shape than Manitoba, afflicted by severe drought and crop failures, struggling to provide relief to one-third of its rural residents. “The total relief expenditures since 1930 have exceeded the total ordinary revenues of the province for the same period.”<sup>189</sup> Worse, the provincial government was covering the costs of seed, feed, tractor fuel and other operational expenses to southern farmers: This amounted to “the prime costs of production for about one-half of its major industry.”<sup>190</sup> The report paid tribute to the province’s “courageous spirit” in the face of “a national disaster,” and depicted temporary financial aid as “justified.”<sup>191</sup> It added: “We do not see any solution other than that which might be provided by a complete enquiry into the financial powers and responsibilities of all our governing bodies.”<sup>192</sup>

The final Alberta report, which appeared on April 7, 1937, briefly recapped the province’s refusal to pay fifty per cent of the interest on its bonds: “We can only deal

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<sup>188</sup> Summary of the Bank of Canada report on the Financial Position of Manitoba, February 12, 1937. Douglas Alexander Skelton Fonds, Queen’s University Archives, Box 1, File 17. p. 24.

<sup>189</sup> Summary of the Bank of Canada report on the Financial Position of Saskatchewan, March 1937. Douglas Alexander Skelton Fonds, Queen’s University Archives, Box 1, File 17. p. 19

<sup>190</sup> Summary of the Bank of Canada report on the Financial Position of Saskatchewan, March 1937. p. 23.

<sup>191</sup> Summary of the Bank of Canada report on the Financial Position of Saskatchewan, March 1937. Douglas Alexander Skelton Fonds, Queen’s University Archives, Box 1, File 17. pps. 27, 28.

<sup>192</sup> Summary of the Bank of Canada report on the Financial Position of Saskatchewan, March 1937, 28.



with the situation as it is – not as it might have been in other circumstances. We find that Alberta can maintain its governmental services on as favourable a basis as Manitoba or Saskatchewan without receipt of additional assistance.”<sup>193</sup> That was the not-so-subtle punishment for the debt-dodger. The Bank of Canada would send all three reports to the Governor of the Commonwealth Bank of Australia.

In mid-February of 1937, Towers delivered the bad news to Mackenzie King: Manitoba and Saskatchewan would default unless Ottawa assisted them. King understood defaults could lead “to a worse condition than any up to the present.”<sup>194</sup> That is, it would endanger the federal government’s credit rating and force up the interest rates that Ottawa would have to pay on its bonds. Beset, King piously told his diary: “I have all along wanted a Commission on financial allocations and responsibilities of the provinces and the Dominion.”<sup>195</sup> (This was at variance with his reluctance to appoint a commission in 1936 – but it does reflect his call for a Royal Commission during the 1930 election.) Once Ottawa’s credit rating was endangered, King moved from theoretical approval to immediate action.

Four days before he told the House of Commons about his decision, King wrote Bracken that he saw only one solution to Manitoba’s woes: “A comprehensive

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<sup>193</sup> Summary of the Bank of Canada report on the Financial Position of Alberta, April 1937. Douglas Alexander Skelton Fonds, Queen’s University Archives, Box 1, File 17. Pps. 41-42.

<sup>194</sup> Diary of William Lyon Mackenzie King, Tuesday, February 16, 1937.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=17682&>

<sup>195</sup> Diary of William Lyon Mackenzie King, Tuesday, February 16, 1937.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=17682&>

enquiry into the financial powers and responsibilities of all our governing bodies” and, pending the Commission’s report, the extension of temporary financial aid.<sup>196</sup> The federal cabinet met at noon on February 16, 1937, and decided unanimously to appoint a Royal Commission – and to extend temporary aid to Manitoba and Saskatchewan. King announced to the House that afternoon that there would be a commission “on financial allocations and responsibilities of the provinces and the Dominion.”<sup>197</sup> The Prime Minister had left that decision until the last moment: the Manitoba Legislature was due to meet the next day – and the province would likely have defaulted. Months later, King would expand his definition of the Commission’s task: It was to undertake “a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years.”<sup>198</sup> The Prime Minister’s world had changed – and, in his view, not necessarily for the better.

### **The Australians Follow The Drama**

The Australians were tracking Canada’s ongoing woes. In late January 1937, the Judicial Committee of the British Privy Council ruled against the constitutionality of most of Bennett’s New Deal package, including Unemployment Insurance. In their report, the diplomats tucked a copy of McGill University constitutional expert Frank

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<sup>196</sup> Prime Minister Mackenzie King to Manitoba Premier John Bracken, February 12, 1937. Bank of Canada Archives, Department of Bank Operations fonds. Provincial Financing – Manitoba, 1936-1941. PF4, Volume 1. p. 3.

<sup>197</sup> Diary of William Lyon Mackenzie King, Tuesday, February 16, 1937.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=17682&>

<sup>198</sup> “Terms Of Reference, *The Rowell/Sirois Report, Book I*, (Ottawa: Edmond Cloutier, Queen’s Printer and Controller of Stationery, 1954) p. 9.

Scott's essay denouncing that decision. Scott noted that "every Dominion power" that Ottawa invoked in favour of the legislation "was found to be inadequate."<sup>199</sup> Ottawa was permitted to use its emergency powers to impose temperance in 1878, Scott added bitterly, but the Council would not accept the same argument when it came to remedies for unemployment and labour conditions.<sup>200</sup>

The diplomats also forwarded an article by University of Manitoba president Sidney T. Smith from the *Winnipeg Free Press* on February 5, 1937. It noted pointedly:

It does appear that we cannot expect from the Privy Council an interpretation of the constitution that will enable the Dominion to take over some of the social services and the regulation of industrial activities which the provincial legislatures, with insufficient revenue, are unable to undertake. These recent decisions are characterized by a narrow legalism. The matters under discussion were unknown in 1867, but many Canadians today would say they are of major importance.<sup>201</sup>

The Australians were clearly fascinated by the Canadian federation's inability to handle the social and fiscal inequalities among its governments.

The Royal Commission on Dominion-Provincial Relations attracted *huge* attention in Canberra – and it would remain in the spotlight, even after the declaration of war in September 1939. The Parliamentary record of King's announcement of the commission was forwarded to Australia. On March 10, 1937,

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<sup>199</sup> F. R. Scott, "The Privy Council and Mr. Bennett's 'New Deal' Legislation," extract from *The Canadian Journal of Economic and Political Science*, Volume 3, Number 2. National Archives of Australia, Canada – Internal Politics, Series A981, Control Symbol CAN 24 Part 1, Barcode 173375, p. 1.

<sup>200</sup> Scott, 6.

<sup>201</sup> "Privy Council Decisions" by University of Manitoba President Sidney T. Smith in *The Winnipeg Free Press*, Friday, February 5, 1937. National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol, CAN 13, Part 2, Barcode 173360, n. p. in file, p. 1.

the Assistant Australian Trade Commissioner, R. R. Ellen, wrote a detailed update to Canberra:

As your Department is aware the position in Canada is not unlike that in Australia in that the division of powers and responsibilities between the Provinces and the Federal sphere is the subject of much controversy. The administrative responsibilities of the Provinces and municipalities have grown beyond anticipations [sic] in the minds of the statesmen instrumental in cementing the Confederation.<sup>202</sup>

Three months later, Trade Commissioner Macgregor updated Canberra on the financial relations between the varying levels of Canadian governments on the brink of the Royal Commission start-up. There were more than 27,000 taxing bodies, including municipalities, in Canada. The total indebtedness of its governing bodies was nearly \$7.4-billion. The direct and guaranteed federal debt at the end of the 1936-1937 fiscal year was \$4.2-billion. For that same fiscal year, the Ontario Government showed a surplus of \$9.5-million. (Ontario Premier Hepburn had announced that feat “to wild ovations” on March 9, 1937.)<sup>203</sup> While other provinces were in trouble, the only province to default on three maturities amounting to \$6.1-million was Alberta. There had been many municipal defaults. It was a perfect scene-setter for a federation trapped on the brink of a modernizing world.<sup>204</sup>

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<sup>202</sup> Assistant Australian Trade Commissioner R. R. Ellen to The Secretary, Department of External Affairs, March 10, 1937. National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol, CAN 13, Part 2, Barcode 173360, n. p. in file, p. 1

<sup>203</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*, p. 294.

<sup>204</sup> Memorandum from Australian Trade Commissioner in Canada L. R. Macgregor to The Secretary, Department of External Affairs, June 20, 1937. National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol, CAN 13, Part 2, Barcode 173360, n.p. in file, pps. 1-2.

## The Royal Commission Procedure

Three months before King finally accepted the need for a Royal Commission, Deputy Finance Minister W. C. Clark took Skelton's memo on the need for a Royal Commission, expanded it and presented it as a fourteen-page memorandum, which he initialed. He added a list of possible members for the panel. As Chairman, he suggested Ontario Justice Newton Rowell, among others. Among the members – and he hoped to limit the membership to five – he proposed Quebec lawyer and future Prime Minister Louis St. Laurent “or a judge from the Province of Quebec.” Ottawa could also consider University of British Columbia economist Henry Forbes Angus. But Clark's first choice for membership was an Australian outsider, relatively unknown in Canada. “Professor L. F. Giblin: a very able practical economist who was one of the six economists responsible for the ‘Premier's Plan’ adopted in Australia in 1931 and largely responsible for Australian recovery; also a member of the Commonwealth Grants Commission and as such thoroughly familiar with the problems of relations between state and central governments in a federal country.”<sup>205</sup> (The Premiers' Plan, which the state and Commonwealth governments endorsed in June 1931, cut government spending and reduced the interest on government bonds.) Although he would not become a commissioner, Giblin would become a very influential presence.

In a subsequent memo in Clark's files, which was not dated or signed, there is a further outline of possible staff and studies, which Alex “Sandy” Skelton probably

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<sup>205</sup> “Confidential Memorandum: Royal Commission on Economic Basis of Confederation” by W. C. Clark. December 7, 1936. LAC, 121-85-15 General File, RG 19 E 2 C, Volume 22, pps. 1-2.

drafted during the spring of 1936. For the prestigious post of Secretary, Clark recommended Alexander Skelton, who would be “ideal” as the head of the research staff because of his experience with provincial finance.<sup>206</sup> As an assistant to Skelton, Clark suggested future Prime Minister Lester Pearson, who was then first secretary at the Canadian High Commission in London. Among the research studies that the memo suggested, there was one that stood out:

A study of the working of Dominion subsidies to provinces, both conditional and unconditional, advantages and disadvantages of the subsidy principle, the adequacy or inadequacy of present subsidies, the position, if any, which subsidies should occupy in a federal system, *the working of subsidies in other federal countries, the experience of Australia with the Commonwealth Grants Commission, etc., etc.*<sup>207</sup>

The direction of the Royal Commission Secretariat was clear: Australia would be the main model for remaking Canada. And Australian star Giblin would be the primary guide to its successful experiment in easing inequality and political instability among the states.

## Conclusion

After playing with different long-term solutions for inequality such as a Loan Council and a National Finance Council, Ottawa finally turned the entire problem of inequalities in provincial revenues and responsibilities within the federation over to a Royal Commission. It was a start – with Australia as the main model. Meanwhile,

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<sup>206</sup> “Royal Commission on Dominion-Provincial Relations.” LAC. 121-85-15 General File, RG 19 E 2 C, Volume 22, no date. No name, but within the files of W. C. Clark, p. 3,

<sup>207</sup> “Royal Commission on Dominion-Provincial Relations.” 5. My italics.

the fights among Canadian federal and provincial governments would remain largely about control of the revenues to remedy fiscal inequalities among the provinces. Inequality remained a state-centred woe – and there were few others who understood the implications.

### **CHAPTER THREE: The Poorer Versus The Richer At The Royal Commission, 1937-1940**

The Royal Commission on Dominion-Provincial Relations was born in crisis. On February 16, 1937, as Manitoba and Saskatchewan teetered on the brink of insolvency, Prime Minister Mackenzie King and his cabinet made two difficult decisions: they extended temporary aid to those two provinces; and they appointed a Royal Commission to figure out how the federation finances had gone so astray. As chapter two explained, King told the House of Commons that wintry afternoon that the commission would examine the “financial allocations and responsibilities of the provinces and the Dominion.”<sup>1</sup> Months later, he expanded his definition of its task: It was to undertake “a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years.”<sup>2</sup>

The federation had changed drastically since 1867 when the social and economic responsibilities of the provinces were limited – and their revenues, coupled with federal subsidies, could fund those responsibilities. Canadians had seen their traditional supports of family and farm fall away during the first decades of the 20<sup>th</sup> century as Canada industrialized. In turn, they had demanded better services from their overextended provincial governments. The Depression brought

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<sup>1</sup> Diary of William Lyon Mackenzie King, Tuesday, February 16, 1937.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=17682&>

<sup>2</sup> “Terms Of Reference, *The Rowell/Sirois Report, Book I*, (Ottawa: Edmond Cloutier, Queen’s Printer and Controller of Stationery, 1954) p. 9.



home the extent of the mismatch. The poorer provinces such as Saskatchewan and Manitoba could barely cover the staggering costs of relief, their share of the Old Age Pension, and the interest payments on their debts. They pleaded with Ottawa for funds – and Ottawa responded with ad hoc grants and loans. The wealthier provinces such as Ontario resented federal largesse – although they were uneasily aware that provincial defaults could affect their credit ratings.

The high-profile Royal Commission's job was to figure out what had gone wrong and how to change it. Ottawa had already squandered three years in a futile push for a Loan Council similar to the one in Australia to control the debt loads of the poorer provinces – only to realize that even the poorest provinces were reluctant to permanently surrender much, if any, fiscal control. Federal politicians and bureaucrats wanted more, not less, power – after the ruling of the Judicial Committee of the British Privy Council against Ottawa's proposed Unemployment Insurance.

Ottawa asked the commissioners to decide how the federation partners should rearrange their revenues and their responsibilities. For the next two years, the commissioners crisscrossed the nation, listening to witnesses in every provincial capital, including nine major groups in Quebec City, recording 10,702 pages of evidence from eighty-five days of hearings, reading 427 briefs, commissioning studies from thirty-six experts, including examinations of how other federations handled such imbalances.<sup>3</sup>

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<sup>3</sup> David Warren Fransen, *"Unscrewing The Unscrutable": The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-41*, unpublished thesis, University of Toronto, 1984. p. v.

I will focus on key provincial briefs – and on a relatively arbitrary selection of influential business and social organizations – which I culled from those thousands of pages. I will also examine the many commission studies into how other federations, particularly Australia, tackled their problems with inequality among their member states. My aim was to capture economic, fiscal, social and cultural viewpoints, especially those that dealt with inequality. The commissioners' search was exhaustive – and exhausting – and it played out against a background of rising impatience with unbridled capitalism. The social-democratic Co-operative Commonwealth Federation (CCF), which was founded in 1932, had captured seven seats in the 1935 federal election. Throughout the latter half of the decade, its appeal – and its demands for a more equitable world – was growing, especially across the West.

The times demanded change. But the commissioners had a seemingly impossible job. They were wrestling with the structure of a federation in which the provincial demands for federal money for relief payments, debt charges and the provision of basic social services were escalating – and clashing with strong provincial linguistic and cultural identities that would resist any surrender of fiscal control.<sup>4</sup> The problem of control plagued the commissioners: What level of government should

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<sup>4</sup> Richard Simeon and Ian Robinson use the words “territorial identities” to refer to those associated with “language, region, province...the divisions that made federalism necessary in the first place and which remain fundamental to understanding Canadian federalism.”<sup>4</sup> In effect, the term is linked to a specific geographic area within the federation: It is often interchangeable with provincial identities but, crucially, *not always*: i.e. Western (that is, across the Prairie Provinces) suspicion of Ottawa. Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism* (Toronto: University of Toronto Press, 1990) 4.

raise the money and what level of government should account for the money? Since Confederation, the federal government had juggled per-capita subsidies that were often rigged, debt allowances, grants and special grants and loans to help the provinces to fulfill their responsibilities. But there was no formal mechanism to remedy the fiscal inequalities among them – and to promote social cohesion. They were exploring unknown territory in the Canadian federal bargain.

Their three-volume report along with its accompanying studies remains a landmark in Canadian federalism. It was inquisitive in its approach – it examined so many models – and daring in its thought. In particular, I will show how it explored the way that Canada's sister Dominion, the Commonwealth Government of Australia, dealt with inequalities among its member states. As I will also show, the most thoughtful political witnesses such as Manitoba Premier John Bracken and Nova Scotia Premier Angus L. Macdonald along with wealthier groups such as the Canadian Chamber of Commerce would cite Australia frequently in their analyses and their testimony.

The commissioners did understand how much their society had changed. As the report outlined, from 1874 to 1937, total per-capita government expenditures had “increased by eleven times.”<sup>5</sup> The cost of education and public welfare had gone from “the almost negligible figure of \$4-million to \$360-million.”<sup>6</sup> Ottawa's share of

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<sup>5</sup> Report of the Royal Commission on Dominion-Provincial Relations, Volume I, p. 245.

[http://publications.gc.ca/collections/collection\\_2016/bcp-pco/Z1-1937-2-1-2-eng.pdf](http://publications.gc.ca/collections/collection_2016/bcp-pco/Z1-1937-2-1-2-eng.pdf)

<sup>6</sup> Report of the Royal Commission on Dominion-Provincial Relations, Volume I, p. 245

the total cost of government had fallen from two-thirds to less than one-half – and that included federal contributions to the provinces for relief and old-age pensions.<sup>7</sup>

The provinces' limited tax base had left them in an impossible position: They could not afford what they now had to deliver. And some provinces were far less fiscally capable than others. As historian and political theorist Frank Underhill, one of the founders of the CCF, later wrote, the report captured a nation that was unusually dependent on outside forces, caught up in the international system of trade and finance, scrambling to deal with the huge fiscal inequalities among its member states. The disparities were especially striking within poorer provinces such as wheat-exporting Saskatchewan that were most dependent on international markets. Underhill approvingly quoted excerpts from the report: "Our 'boundless resources' are worth only what we can sell them for...Economically, Canada can be compared to a string of beads, and they are not all pearls."<sup>8</sup>

Such inequality put the commission in a difficult position – if only because Ottawa would not consider the possibility of non-conditional equalization grants. Indeed, the very thought was simply inconceivable. As a result, the commission report could not establish an acceptable compromise between the protection of provincial rights and the need for more federal funds for provincial relief payments, basic social services and interest payments of the debt. (Although key activists such as the Canadian Welfare Council urged the commission to call for expanded social services

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<sup>8</sup> Frank H. Underhill, "The Sirois Commission as Historians" in *The Sirois Report – A Discussion of Some Aspects*, *The Canadian Forum*, November 1940. p. 235.

such as better pensions, the push for improved social security would only become widespread during the last years of World War Two.).

Instead, as I will show, the commissioners concocted a plan for an ideal federation in which Ottawa centralized revenues and then redistributed them to ensure that each province had sufficient per-capita funds to provide for its citizens. The redistribution would be calculated through a well-meaning but clumsy scheme for National Adjustment Grants: Ottawa would assess each province's spending to determine its per-capita fiscal needs in comparison with the national average. The plan was roughly modeled on the Australian approach. As political scientist D. V. Smiley observed, the commission had a "precise idea" of what provincial autonomy meant:

A province has genuine independence only if it has the revenues at its disposal to carry out those functions for which it is responsible, free from federal control in respect to those functions; the master-solution of the report was aimed at ensuring that each province was put in a financial position to provide, if it chose, a level of provincial services at average national standards without subjecting its citizens to provincial taxation above the national average.<sup>9</sup>

In the commission's ideal federation, there were no messy provincial identities to interfere with this massive constitutional redraft. It would not, and could not, work in Canada – if only because it would have allowed Ottawa to monitor and evaluate each province's decisions on spending. As political scientist Peter M. Leslie notes,

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<sup>9</sup> D. V. Smiley, "The Rowell-Sirois Report, Provincial Autonomy, and Post-War Canadian Federalism" in *The Canadian Journal of Economics and Political Science*, Vol. 28, No. 1 (February 1962) p. 56.

such interference would have destroyed provincial autonomy.<sup>10</sup> But the National Adjustment Grants would become another model for equalization – albeit with a different formula for establishing provincial allotments.

The commission report was tabled in the House of Commons in May 1940 as the Nazis swept toward France. Almost eight decades later, the 741-page report stands as a remarkable summary of the first sixty years of Confederation. Indeed, it caught the past and its present. But it could not foresee the ways of the future.

Still, through their hearings, their academic studies and their seminal report, the commissioners would bring Canada much further along the road toward equalization. The members – along with Research Director Alex Skelton and assistant research director John J. Deutsch – would be hugely important players in the preservation and development of the nation. From their official appointment on August 14, 1937 to the tabling of their report on May 16, 1940, they had an extraordinary ride.

### **The Royal Commissioners**

King had picked good candidates for this investigation – but they were not stars. As Bank of England advisor Raymond Kershaw, who was an expert on Commonwealth countries, confided to his friend, Bank of Canada Governor Gordon Towers, in early September 1937:

The scope of the enquiry seems wide enough, but I cannot help wondering whether the Commission has enough width of

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<sup>10</sup> Peter M. Leslie, *National Citizenship and Provincial Communities: A Review of Canadian Fiscal Federalism* (Kingston, On.: Institute of Intergovernmental Relations, Queen's University, 1988) p. 27.

experience and weight of authority to produce and put over a report that will do justice to such fundamental terms of reference. But then I have no knowledge of the members, and these things often depend on one man – who may be there, for all I know. It is good, anyway, that you are likely to have Skelton associated with the Commission.<sup>11</sup>

Towers replied that he was “afraid that there may be some foundation for the doubt expressed in your letter.... If so, the moral is that the weight of the report itself will have to make up for the lack of a name for outstanding business and financial importance. I believe it can be done. Skelton has already been appointed Secretary.”<sup>12</sup>

Still, the five Rowell-Sirois commissioners had led fascinating lives, prowling the world in war and peace, seeking ways to resolve the century’s challenges. Largely forgotten now, they became public stars when they were chosen – because Canadians rightly knew that the federation was not working well – and that social cohesion and political stability were strained. As the Bank of Nova Scotia’s *Monthly Review* declared in June 1938: “The hearings have been followed with interest throughout the Dominion, for there has probably never been such a forum for public opinion on questions of national importance to Canada.”<sup>13</sup>

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<sup>11</sup> Bank of England advisor Raymond Kershaw to Bank of Canada Governor Gordon Towers, September 2, 1937. Bank of Canada Archives, Department of Bank Operations fonds. Royal Commission on Dominion-Provincial Relations. B95-291. ASK 1939. Secretary to Towers. 1.

<sup>12</sup> Bank of Canada Governor Gordon Towers to Bank of England advisor Raymond Kershaw, September 10, 1937. Bank of Canada Archives, Department of Bank Operations fonds. Royal Commission on Dominion-Provincial Relations. B95-291. ASK 1939. Secretary to Towers. 1.

<sup>13</sup> “ ‘His Majesty’s Right Trusty and Well-Beloved’: Royal Commissions – A Method of British Democracy” in The Bank Of Nova Scotia *Monthly Review*, Toronto June 1938, Volume XII, Number six. p. 4. I am grateful to Bank of Nova Scotia Archivist Andrea McCutcheon for supplying these monthly reviews.

I will briefly review the commissioners' biographies to show that they were familiar with the politics and policies of Canada. Their backgrounds are important because scholars have subsequently wondered why they embraced a centralizing fiscal scheme that entailed major constitutional changes. As former Department of Finance official Ronald M. Burns noted only two decades later, the commissioners took "a surprisingly short-term view" in their analysis of the nation's economic and social problems: "[But] the 1930s could not be typical...it was in the general recasting of our political life in the economic terms of the 1930's...that the main weakness lay."<sup>14</sup>

Perhaps worse, their "political innocence" was baffling: "Recommendations which would have had such centralizing effects could never have been acceptable to many of the provincial governments under any circumstances."<sup>15</sup> Burns darkly blamed some "prominent staff members" for their approach – and those members no doubt included Secretary Skelton and deputy research director Deutsch.<sup>16</sup>

Chairman Newton Rowell was an eloquent former politician and respected jurist, who could be kindly, but he was "not always gentle."<sup>17</sup> In 1937, he was also a 69-year-old statesman who had somehow escaped his partisan roots: As the leader of the Ontario Liberal Party in 1917, Rowell had moved from Sir Wilfrid Laurier's

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<sup>14</sup> Ronald M. Burns, "The Royal Commission on Dominion-Provincial Relations: The Report In Retrospect" in *Canadian Issues: Essays in Honour of Henry F. Angus*, ed. Robert M. Clark (Toronto: University of Toronto Press, 1961) pps. 153-154.

<sup>15</sup> Ronald M. Burns, "The Royal Commission on Dominion-Provincial Relations: The Report In Retrospect", p. 154.

<sup>16</sup> Ronald M. Burns, "The Royal Commission on Dominion-Provincial Relations: The Report In Retrospect", p. 154

<sup>17</sup> Unpublished Autobiography of Henry Angus, Chapter 7, Library and Archives Canada. MG30, Series E274, Vol. 1, p. 261.



Liberals to Sir Robert Borden's wartime Unionist government because he believed fervently in conscription. His biographer, historian Margaret Prang, depicts him as an estimable man, curious about the world and regarded as incorruptible in difficult times.<sup>18</sup> His sudden illness in May 1938 would rob the commission of his seasoned political judgment and common sense.

The role of Quebec commissioner was more difficult to fill – because this person would be hugely influential when it came to deciding how to redesign the federation to ensure that Quebec was on side. King initially appointed Supreme Court of Canada Justice Thibault Rinfret. But, before the Commission hearings could begin in Winnipeg in late November, the judge resigned because of ill health. To replace Rinfret, Justice Minister Ernest Lapointe, who was King's trusted Quebec lieutenant, consulted the Francophone Counsel to the Commission, Louis St. Laurent. Future Prime Minister St. Laurent recommended Quebec City notary and law professor Joseph Sirois. When Sirois demurred, St. Laurent leaned on their long friendship to convince Sirois that it was his duty to accept the offer, even though he had “no particular interest in the work of the commission at the outset.”<sup>19</sup>

Although Sirois did not know his fellow commissioners when he joined, it was a coup to have him. Within Quebec, Sirois was hugely admired for his expertise in constitutional and administrative law – he was also a Laval University law professor – and for his presence on top-drawer business boards. He brought “the prestige of

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<sup>18</sup> Margaret Prang, *N. W. Rowell: Ontario Nationalist* (Toronto: University of Toronto Press, 1975) and in *The Canadian Encyclopedia*: [http://www.biographi.ca/en/bio/rowell\\_newton\\_wesley\\_17E.html](http://www.biographi.ca/en/bio/rowell_newton_wesley_17E.html)

<sup>19</sup> Dale C. Thomson, *Louis St. Laurent: Canadian*. (Toronto: Macmillan of Canada, 1967). p. 95.

one of the oldest legal firms in Quebec City and...the seal of approval of the Quebec élite.”<sup>20</sup> His opinion would become a commission gauge of what Quebec might accept.

The Prairie commissioner was the fiercely proud Canadian journalist John Wesley Dafoe, who had known virtually everyone in public life for decades. A self-made man, he became editor of the *Manitoba Free Press* in 1901 – and he would continue in that role until his unexpected death in 1944. He cared deeply about Western issues such as lower tariffs and freight rates –but his influence and interests extended across the nation.

He did not view himself as a centralizer or as a provincial rights advocate. But, even before he took the job, he had concluded that the constitution was not working during the Depression for rank-and-file Canadians or for destitute provinces. The calculating King had thought ahead. As historian Ramsay Cook notes, the Prime Minister was serving notice “on the extreme proponents of provincial rights that their submissions would be met by a convinced nationalist.”<sup>21</sup> In the end, however, King would get more of a centralizer than he wanted.

The British Columbia commissioner was Henry Forbes Angus. Born in Victoria, he was an economist and a lawyer, who taught economics at the University of British Columbia. When the commission started its hearings in November 1937, he was forty-six, and “quite overwhelmed by the importance of the assignment.” But his twin skills of economics and law would be a huge contribution to the

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<sup>20</sup> Dale C. Thomson, *Louis St. Laurent: Canadian*. (Toronto: Macmillan of Canada, 1967). p. 95.

<sup>21</sup> Ramsay Cook, *The Politics of John W. Dafoe and the Free Press*. (Toronto: University of Toronto Press, 1963) p. 223.

commission's research. And Angus's own unpublished memoirs would provide glimpses into the Commission's private debates about inequality and the messy business of sharing among unequal governments.

The Maritime representative was the Ontario-born political scientist R. A. "Bert" MacKay who taught at Dalhousie University in Halifax. In 1934 MacKay had written that crucial appendix – "Economic Inquiry – Financial Relations" – for the three-man Royal Commission Provincial Economic Inquiry [sic] that Premier Angus L. Macdonald had appointed. That paper had enumerated the fiscal inequalities within the federation, starting with Nova Scotia's entry into Confederation and expanding on the conclusions of the Duncan Commission report of 1926. MacKay had made no secret of his support for the Maritime case for unequal treatment.

But the 43-year-old MacKay had a powerful supporter in his corner: Prime Minister King loved the essay that MacKay had written on the political ideas of his rebel grandfather, William Lyon Mackenzie. MacKay had presented his research to the Royal Society of Canada in May 1936 – and it had appeared in the *Canadian Journal of Economics and Political Science* in February 1937. (MacKay had concluded: "At heart Mackenzie always remained a Puritan with a mission.")<sup>22</sup> Fourteen months later, when the Prime Minister invited the commissioners to dine at Laurier House, King would practically purr: "I was particularly pleased to have the talk I did with MacKay about my grandfather, whom we both greatly admire."<sup>23</sup>

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<sup>22</sup> "The Political Ideas of William Lyon Mackenzie" in *The Canadian Journal of Economics and Political Science*, February 1937, Volume III, Number 1, p. 3.

<sup>23</sup> Diary of William Lyon Mackenzie King, Friday, December 2, 1938, p. 3.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=19655&>

### **The Royal Commission Gets Underway**

Before the Commissioners could gather for their first full meeting, Rowell and Dafoe held an informal gathering in Ottawa on August 4, 1937 with Skelton, along with Finance Ministry and Bank of Canada officials. They set out a preliminary list of research studies and a proposed schedule of hearings.<sup>24</sup> Twenty-seven academics would eventually research the economy and nine would look at legal and constitutional affairs. Their emphasis was on the workings of federalism – and the search for alternate ways to handle social and economic inequalities. The ensuing scholarship would emerge as “the greatest research effort undertaken by a Canadian royal commission up to that time.”<sup>25</sup>

Meanwhile, the commissioners braced for the task ahead. From November 29, 1937 to December 1, 1938, they would be on the road, trundling onto trains, for eighty-five days of public hearings in every provincial capital.<sup>26</sup> They would have an avid national audience. *Winnipeg Free Press* editor Dafoe wanted to ensure that *all* Canadians knew what the Commissioners were doing – and what they heard. He assigned his newspaper’s Legislative correspondent J. B. “Hamish” McGeachy to follow them across Canada, and file what would become a *syndicated* column, “Confederation Clinic,” under the byline J. B. M. While other journalists such as Carl

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<sup>24</sup> Research Director D. A. Skelton to Royal Commissioner Henry Forbes Angus, August 21, 1937. Royal Commission on Dominion-Provincial Relations, LAC, C-6988, RG33, Series 23,

<sup>25</sup> David Warren Fransen, *“Unscrewing The Unscrutable”: The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-41*, unpublished thesis, University of Toronto, 1984. p. v.

<sup>26</sup> David Warren Fransen, p. v.

Reinke of the *Canadian Press* also trailed after the Commission, McGeachy's reports managed to be both lively – *and* accurate in terms of the operations of the federation. (Skelton told Dafoe that when he showed them to Australian federalism expert L. F. Giblin in August 1938, the Australian pronounced them “as a really first-rate achievement, in journalism of the best kind, - which is rare these days.”[sic])<sup>27</sup> I will cite McGeachy frequently because his columns were syndicated – so many anglophone Canadians across the nation had access to them.

As I follow the commissioners, I will concentrate on the provincial governments – because they provided the most compelling and substantive evidence of the federation's fiscal inequalities. Those governments were also the primary actors in my state-centred analysis of inequality– although I will not neglect the economic and social groups that put pressure on their institutions.

As I will show, the richer province such as Ontario and Quebec expressed their flat-out reluctance to see Ottawa contribute more to the poorer provinces. The poorer provinces such as the Maritime Provinces, Manitoba and Saskatchewan, in turn, vividly described their huge responsibilities, their insufficient revenues and their crippling debts. As well, they often suggested radical rearrangements of the federation to remedy their fiscal plight. Those governments often mentioned Australia and, more rarely, other federations such as Argentina, which also relied on commodity exports. I will occasionally look at other important players as well, such as the influential Canadian Chamber of Commerce and the prestigious Canadian

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<sup>27</sup> Rowell-Sirois Commission Secretary Alex Skelton to Commissioner John Dafoe, September 12, 1938. John Dafoe Fonds, University of Manitoba Archives, Box 14, Folder 3. p. 3.

Welfare Council. The commissioners did read virtually every brief that appeared before them.

They bonded with each other readily – partly because of an accident. Three weeks before the first session in Winnipeg in late November, Anglophone Counsel James McGregor Stewart had slipped on a wax floor during a Halifax card party and fractured his leg. As Henry Angus later wrote, it was an oddly fortunate event – because Francophone Counsel Louis St. Laurent had to take Stewart’s place on this Western circuit to Winnipeg and Regina. Sirois had been “a little diffident at first in what were to him totally new surroundings.” But, in the presence of his close friend St. Laurent, Sirois gradually relaxed amid the totally English-speaking surroundings.<sup>28</sup> That growing bond with St. Laurent would become evident when the commissioners came to write their report on their unequal world. (And that report, in turn, would clearly affect St. Laurent – when the time came to establish non-conditional equalization.)

The commissioners were braced for unrelentingly bad news about life in the West. But, with the exception of Dafoe, it was worse than they had expected. As a courtesy, their first witness on November 29 was Manitoba Premier John Bracken, who had urged King in late 1936 to appoint the Royal Commission. The Premier could be verbose, but he was always incisive about his province’s unequal position within Canada. He could not pay for social services and relief. The province’s small number of provincial and municipal-tax payers were staggering under provincial and municipal debt that was equal to ninety-eight per cent of total annual income in

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<sup>28</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, 266-267.

1933.<sup>29</sup> The total cost of relief in 1936 for Ottawa, his province and his municipalities was \$11.7-million – or 81.2 percent of Manitoba’s ordinary expenditures.<sup>30</sup> He was blunt: “From the earliest years of Confederation, there has arisen in province after province protests of inequity and claims for adjustment, large numbers of which have been found on examination to be just complaints.”<sup>31</sup>

Now Manitoba had joined that queue:

In presenting our case we shall feel that we are not less Canadian in spirit or in reality if we show that the economic picture which Canada, not intentionally but nevertheless actually, has permitted to be drawn across this section of the Dominion is not just to those Canadians who happen to live here and is not in the interests of Canada as a whole.<sup>32</sup>

The lengthy Manitoba proposal frequently cited Australia as an example of fairness in the treatment of states and citizens. Australia had depreciated its currency during the Depression: The Commonwealth Grants Commission had concluded that the positive effects of that currency depreciation had almost balanced the negative effects of the Australian tariff on resource producers. (In his

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<sup>29</sup> “Manitoba’s Case – The Effects of Declining Income” in Manitoba’s Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, LAC, RG 33/23, Part V. pps. 2-4. The Premier did not specify income-tax payers.

<sup>30</sup> “Analysis of Manitoba’s Treasury Problem” in Manitoba’s Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, LAC, RG 33/23, Volume 1. 56.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/292?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/292?r=0&s=6)

<sup>31</sup> “Introduction” in Manitoba’s Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, LAC, RG 33/23, Volumes 1. 2.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/29?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/29?r=0&s=6)

<sup>32</sup> “Introduction” in Manitoba’s Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, 5.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/32?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/32?r=0&s=6)

later private memo on the CGC, commissioner Angus would dispute Manitoba's claim that the CGC methodically toted up the effects of the tariff and the exchange rate: "This exaggerates the extent of its calculation."<sup>33</sup>)

In contrast, the Manitoba brief stated, Ottawa's tariffs and exchange rate policies to protect manufacturers were driving up the cost of farm production and impeding Western export sales. "In Canada the disability due to the exchange policy is *to be added* to the disability by the tariffs to arrive at the *gross* loss."<sup>34</sup> Australia's efforts to achieve equality among its states were far more ambitious: Ottawa's subsidies to the provinces were only one-quarter of the Commonwealth's subsidies to its states.<sup>35</sup> The Australians regarded even private debt as an impediment to economic recovery – so the Premiers' Plan had cut interest rates across the board.

It was powerful plea from an impoverished government. But, although Bracken half-heartedly suggested that Ottawa abandon "the pretence of equality of treatment" in subsidies, he conceded that it would be difficult to deal with the hostility of the wealthier provinces and even more difficult to find a satisfactory

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<sup>33</sup> "Comments By Prof. Henry Forbes Angus On Federal Finance In Australia," for the Royal-Commission on Dominion-Provincial Relations, H. F. Angus file, LAC, RG33, Series 23, Volume 71. p. 11.

<sup>34</sup> "The Effects of Federal Monetary Policy, Part IX" in Manitoba's Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, LAC, RG 33/23, Volume 1. p. 32. Italics in original.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/119?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/119?r=0&s=6)

<sup>35</sup> "Dominion and Provincial Budgets, Part IX" in Manitoba's Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, pps. 14-15.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/376?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/376?r=0&s=6)



formula.<sup>36</sup> (That statement captured the ongoing quandary in tackling inequality among provinces.) Better still, he said, Ottawa could cancel the debts for relief payments that Manitoba and its municipalities owed to the federal treasury. And it could pick up “one-half of the cost of our social services, chiefly services relating to public welfare.”<sup>37</sup> Basically, Bracken asserted, the financial plan of Confederation did not work for Manitoba. Indeed, Manitoba was one of the few provinces that did not care what Ottawa did – as long as it did something. *Anything*.

The response to Manitoba’s plight was generally favourable, although commission counsel St. Laurent proved to be a difficult examiner. (The commissioners, the two counsels, legal secretary Robert Fowler and Skelton could ask questions.) After several more witnesses such as the Winnipeg Real Estate Board and the Winnipeg Board of Trade had appeared before the commissioners, J. B. McGeachy concluded that St. Laurent was “almost alarming...His mind performs with speed and his questions come at the same rate. He pursues truth like an amiable but enthusiastic terrier after a rabbit.”<sup>38</sup> But McGeachy also decided that the provincial government

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<sup>36</sup> “Analysis of Manitoba’s Treasury Problem” in Manitoba’s Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, LAC, RG 33/ 23, Volume 1. 48.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/287?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/287?r=0&s=6)

<sup>37</sup> “Manitoba’s Case – Summary and Recommendations” in Manitoba’s Case: A Submission Presented to The Royal Commission on Dominion-Provincial Relations, LAC, RG 33/ 23, Volume 1. 56.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/345?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/345?r=0&s=6)

<sup>38</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press*, Wednesday, December 1, 1937. p. 1.

had acquitted itself “with great care and elaboration...its briefs are documented and backed up with battalions of statistics.”<sup>39</sup> It was a solid presentation of a dire case.

Saskatchewan’s plight was even worse. Premier W. J. Patterson would win re-election in June 1938 – although the CCF would win ten seats. The Premier could already see the discontent among his voters. Now, in an introductory letter to a 434-page brief, the rattled Premier promised to spell out “the handicaps which it suffers by reason of its location and the physical conditions which apply to its basic industry of agriculture.” He added that the diversities of the federation “make it difficult for Federal policies to apply with equal benefit to all sections of the nation.”<sup>40</sup> The brief itself promised: “All this will be a very dark picture.”<sup>41</sup>

And it was. The province’s per capita income – with the exception of Prince Edward Island – was the lowest in Canada at two-thirds of the national average. The fiscal need of the province was “very great,” while the existing arrangements for provincial support “are inherently faulty.”<sup>42</sup> More than 407,600 people out of a population of 928,000 were now on relief. The Premier expected that number to hit 500,000 before February but there was “nobody starving or cold or homeless.”<sup>43</sup>

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<sup>39</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press*, Wednesday, December 1, 1937. p. 1

<sup>40</sup> Saskatchewan Premier W. J. Patterson, Foreward [sic] to Province of Saskatchewan Submission to the Royal Commission on Dominion-Provincial Relations, 1937,” Exhibit 34. LAC, RG 33/ 23, Volume 2.  
[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/844?r=0&s=1](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/844?r=0&s=1)

<sup>41</sup> Province of Saskatchewan Submission to the Royal Commission on Dominion-Provincial Relations, 1937,” LAC, RG 33/ 23, Volume 2. Exhibit 34, 3.

<sup>42</sup> Saskatchewan submission, 15

<sup>43</sup> “Relief Problems Acute, But None Uncared For” in *The Globe and Mail*, Saturday, December 11, 1937. p. 1.

Per capita provincial and municipal debt as a percentage of income was the highest in Canada. Debt charges consumed an astonishing forty-seven percent of its revenues. Residents would “not readily tolerate further reduction or elimination of expenditures on education, hospitalization, care of the aged and destitute and other expenditures of a like character.... Saskatchewan cannot maintain, through periods of economic depression and crop failure, *the minimum standards of social and community services which are, by common consent, considered appropriate to Canada.*”<sup>44</sup> This was an early appeal to the still-unarticulated principle of equalization, which would eventually find its way into the Constitution in 1982. The brief added that spending on social services in April 1936 was almost ten times higher than it had been in 1911.<sup>45</sup> The provincial government could not stay afloat.

Australia, once again, was cited with envy. That nation had learned during the early years of the Depression to concentrate on its national income – as opposed to Canada’s continuing emphasis on “sound money.” So Australia had depreciated its currency in 1931: “‘Equality of sacrifice’ while alleged to have potential anti-deflationary powers, was also considered an equitable and highly desirable goal in its own right,”<sup>46</sup> Australia understood that the community at large should bear a

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<sup>44</sup> Province of Saskatchewan: Submission to the Royal Commission on Dominion-Provincial Relations, 1937,” Exhibit 34, 46. My italics.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/874?r=0&s=5](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/874?r=0&s=5)

<sup>45</sup> Province of Saskatchewan, Submission to the Royal Commission on Dominion-Provincial Relations, 1937,” Exhibit 34. LAC, RG 33/ 23, Volume 1. 274

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6980/991?r=0&s=5](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6980/991?r=0&s=5)

<sup>46</sup> Province of Saskatchewan Submission to the Royal Commission on Dominion-Provincial Relations, 1937, LAC, RG 33/ 23, Volume 1. p. 242-243.

portion of the burden of the most vulnerable. The brief added bitterly that such devotion to equality did not exist in Canada:

The tacit assumption was that the economic distress could be localized, that the vulnerable groups must bear with fortitude *their unequal burdens*, sustained by the faith that their martyrdom was but the price of the sanctity of contract and of the credit of the Dominion. In any case, no policy which might lead to a diffusion of income impairment, or to the decline of the dollar, was to be countenanced.<sup>47</sup>

The inequality of the burden clearly rankled – especially in comparison to Australia. Anyone who read the Saskatchewan brief would understand that inequality among provinces and their citizenry was dangerous to national cohesion – and to the stability of the nation-state. Or, as McGeachy observed, Manitoba witnesses were “polyannas by comparison with the Saskatchewan citizens. The story of bankruptcy told here is the most dismal the Commission will hear.”<sup>48</sup>

Saskatchewan had proposals for change. It wanted Ottawa to assume responsibility for that portion of the debt that could be attributed to the payment of relief – because it was “incurred in the discharge of a national obligation.”<sup>49</sup> It maintained that social services had to expand in this new world: Ottawa should take full responsibility for relief and for old-age pensions, which would have an eligibility age of sixty-five instead of seventy; consider health insurance; institute Unemployment Insurance; and enact a national policy for labour. Ottawa should also increase its subsidies. The commissioners should forget any talk of parity among the

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<sup>47</sup> Province of Saskatchewan Submission to the Royal Commission on Dominion-Provincial Relations, 1937, 244.

<sup>48</sup> J. B. McGeachy, “Confederation Clinic” in *The Winnipeg Free Press* on Saturday, December 11, 1937. p. 1.

<sup>49</sup> Province of Saskatchewan Submission to the Royal Commission on Dominion-Provincial Relations, 1937 331.

provinces: provincial equality “had to go down before actual fiscal need.”<sup>50</sup>

Saskatchewan was “the Cinderella of the Canadian Federation.”<sup>51</sup> This was a moral appeal – *and* a hardheaded pitch to the self-interest of all Canadians.

The message from the Saskatchewan Urban Municipalities Association was worse: taxpayers were facing “complete confiscation” of their homes because they could not afford the high property taxes that funded social services as well as relief payments for their unemployed neighbours.<sup>52</sup> The larger cities were also funding medical, optical and dental care for families on relief.<sup>53</sup> The quality of infrastructure and schools was declining as the cost of relief decimated city budgets.<sup>54</sup> Municipal credit had been “completely” destroyed: No city had “been able to sell bonds on the open market since 1930”; some cities had defaulted; interest payments on bank loans and other debts were often “as much as the total relief costs in 1932.”<sup>55</sup>

Most poignantly, the land that was once the source of Prairie wealth and pride “now stands as a symbol of liability.”<sup>56</sup> Residents were getting poorer – and so were their governments. The hearings were so grim that Commissioner Henry Angus

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<sup>50</sup> Analysis of the Province of Saskatchewan brief in the Analysis of Evidence Taken At The Regina Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission Report 1940, LAC, RG 33, Series 23, Vol. 60. Pages 2, 11.

<sup>51</sup> Province of Saskatchewan, Submission to the Royal Commission on Dominion-Provincial Relations, 1937,” Exhibit 34. p. 285.

<sup>52</sup> Brief of the Saskatchewan Urban Municipalities Association to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 2. p. 7.

<sup>53</sup> Brief of the Saskatchewan Urban Municipalities Association to the Royal Commission on Dominion-Provincial Relations, 11.

<sup>54</sup> Brief of the Saskatchewan Urban Municipalities Association to the Royal Commission on Dominion-Provincial Relations, 14.

<sup>55</sup> Brief of the Saskatchewan Urban Municipalities Association to the Royal Commission on Dominion-Provincial Relations, 15.

<sup>56</sup> Brief of the Saskatchewan Urban Municipalities Association to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 2. p. 16.  
[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6981/199?r=0&s=5](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6981/199?r=0&s=5)

reminded his fellow commissioner Joseph Sirois of the lines from Virgil's *Aeneid*:

When Queen Dido asked Aeneas to recount his arduous journey, he replied:

"Majesty, too terrible for speech is the pain which you ask me to revive."<sup>57</sup> Angus used the original Latin.

The commissioners listened in horrified fascination. They understood what these impoverished governments were saying. In both provinces, they peered at the lines of despairing men who pleaded for jobs or handouts and the tarpaper shacks that housed their families. They saw the abject need on the streets outside their hotels. In Winnipeg, unemployed men were cleaning up the chilly riverbanks, paid with cash and relief vouchers.<sup>58</sup> In Regina, donations from across the nation had provided eighty million pounds of food for homes in drought-stricken southern Saskatchewan.<sup>59</sup> Cows and other livestock were starving on those prairies because ice had formed over the short stubble left from the disastrous crop year.<sup>60</sup>

It was almost impossible to imagine remedies for such desperate and seemingly insoluble inequality. The commissioners had good intentions. They aspired to help needy governments help needy people. But, as they would discover, sharing among governments would be complicated. Advocacy groups would often ask for *federal* social programs that would provide everything from health care to unemployment assistance. Most provincial governments wanted to protect their right to design and

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<sup>57</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 275-276. Translation is from Virgil, *The Aeneid*, trans. W.F. Jackson Knight. (Harmondsworth, Middlesex, England: Penguin Books Ltd., 1956) p. 51.

<sup>58</sup> "Work For Jobless" in *The Globe and Mail*, Friday, November 19, 1937. p. 17.

<sup>59</sup> "80,000,000 Pounds of Food For Drought-Stricken Are Distributed" in *The Globe and Mail*, Monday, November 15, 1937. p. 15.

<sup>60</sup> "Cows Starve As Ice Forms" in *The Globe and Mail*, Wednesday, December 1, 1937. p. 8.

administer any such social programs. As I will show, the commissioners' hearings would continue in Ottawa after the holiday season. Meanwhile, King's problems were just getting worse – much as he wanted the Royal Commission to make them go away.

### **The Australians Monitor The Commission**

From the start, the Australians followed the Rowell-Sirois hearings – and kept Canberra up to date. The diplomats forwarded extracts from a talk about the history of Canadian constitutional reform that University of Manitoba historian R. O. MacFarlane delivered over the Canadian Broadcasting Corporation in October 1937: “The desire for social and economic reform has been one of the most potent stimulants to constitutional change in Canada.”<sup>61</sup> On December 16, 1937, the Australian External Affairs Secretary told the Australian Trade Commissioner in Canada that the Treasury Department:

is very keenly interested in the enquiries that are being made by that Commission...It would be greatly appreciated if you would kindly forward as soon as possible after they are issued, copies of any progress reports that may be published officially, or of any press or other reports which might be of value in considering the work that is being done by the [Commonwealth Grants] Commission.<sup>62</sup>

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<sup>61</sup> “An Historical Approach to the Canadian Constitution: Extracts from a Broadcast of the Kelsey Club, Winnipeg Over the Network of the Canadian Broadcasting Corporation Recently” in *The Monetary Times*, October 30, 1937. The National Archives of Australia, Canada Constitutional, Series A 981, Control symbol CAN 13 Part 2, Barcode 173360, p. 1.

<sup>62</sup> Memorandum for The Australian Trade Commissioner, Canada from W. R. Hodgson, December 16, 1937. The National Archives of Australia, Canada Constitutional, Series A 981, Control symbol CAN 13 Part 2, Barcode 173360, p. 1.

In response, the diplomats sent every major brief to Canberra until the central government finally told them to stop. The Commonwealth Government only wanted the provincial briefs in future: “The great bulk of proofs...is of little interest to this Department. We are concerned more particularly with the cases submitted to the Royal Commission by the various Canadian Provinces.”<sup>63</sup> As I will show, the Royal Commission and its witnesses were even more interested in Australia’s approach to inequality.

### **Mackenzie King’s Woes**

The Prime Minister had his hands full. In December 1937, mere days after the Rowell-Sirois hearings in Regina finished, he learned that there was more discord ahead. The National Employment Commission, which he had appointed in May 1936, was about to recommend that Ottawa assume responsibility for *all* unemployed employables. The expense would have been crippling, destroying his government’s vaunted reputation for fiscal prudence. And the very idea of interference in provincial areas of constitutional responsibility appalled him. As historian James Struthers has aptly summarized: “In its final act the commission thus brought to a head the underlying tensions and contradictions which had

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<sup>63</sup> Letter from the Treasury Department Assistant Secretary to the Department of External Affairs Secretary, August 11, 1938. The National Archives of Australia, Canada Constitutional, Series A 981, Control symbol CAN 13 Part 2, Barcode 173369, p. 1.



surrounded Ottawa's involvement with the unemployed since its first contributions to relief at the end of the First World War."<sup>64</sup>

King was frantic. He turned to his idealistic Labour Minister Norman Rogers, and was astonished to learn that Rogers supported that advice. "I pointed out that that meant the whole of relief," an alarmed King confided in his diary. "The Party would never escape that obligation on itself."<sup>65</sup> To his dismay, Rogers defended "the whole business as being the right thing."<sup>66</sup> But the next morning, at King's urging, Rogers spoke to British-born industrialist Arthur Purvis, who chaired the commission. Purvis defended his approach. The crisis continued. That afternoon, King reminded cabinet that Purvis was only supposed to look at the concrete situation of unemployment on the ground – not the general problem of unemployment policy.

By the letter of that mandate, King was correct. The Commission had a specific legal chore: to consider a possible apprenticeship program; to outline the conditions that would allow a province to qualify for relief; to examine employment for the disabled and ex-soldiers; to recommend public works that would provide employment; and to outline "comprehensive measures constituting a long-range plan of development which may be proceeded with or not, as conditions warrant."<sup>67</sup>

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<sup>64</sup> James Struthers, *No Fault of Their Own: Unemployment and the Canadian Welfare State 1914-1941* (Toronto: University of Toronto Press, 1983) p. 175.

<sup>65</sup> Diary of William Lyon Mackenzie King for Monday, December 20, 1937.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=18593&>

<sup>66</sup> Diary of William Lyon Mackenzie King for Monday, December 20, 1937.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=18594&>

<sup>67</sup> "Unemployment And Relief in Canada: Issued as a Supplement to The Labour Gazette", April 1936 (Ottawa: J. O. Patenaude, Printer To The King's Most Excellent

The Prime Minister did not want to hear about the bigger picture. He viewed the report as a potential catastrophe. To his relief, cabinet backed him.

But the impasse blighted King's Christmas. In early January, he concluded that the dangers the report posed were "more disturbing than anything I have seen thus far in my public life" with the exception of the First World War.<sup>68</sup> In mid-January 1938, at Rogers' request, Purvis spoke with Royal Commission chairman Rowell about what Rowell viewed as their apparently overlapping terms of reference. Two weeks later, after all seven members of the Purvis Commission met with Rowell, Purvis agreed to cut much of the contentious material from his report.

King rejoiced. Rogers was isolated within cabinet. Purvis had backed down. The Prime Minister then declared that the Purvis report should not be tabled until it was translated. By then, he reasoned, Parliament would be distracted with other problems. But the episode would leave him with an enduring mistrust of the finance ministry bureaucrats, especially those from the Queen's University economics department such as W. A. Mackintosh and W. C. Clark. They had been working, King concluded dourly, to bring about constitutional change "which will lead to a centralization of powers and away from the present order of things."<sup>69</sup> That distrust extended to the Rowell-Sirois Commission staff, including Secretary Alex Skelton.

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Majesty: 1936) 2. National Archives of Australia, Canada – Economic & Financial, Series number A981, Control symbol CAN 18 Part I, Barcode 173366. n.p. in file.

<sup>68</sup> Diary of William Lyon Mackenzie King for Wednesday, January 12, 1938.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=18685&>

<sup>69</sup> Diary of William Lyon Mackenzie King for Tuesday, January 25, 1938.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=18721&>

Still, he had dodged a bullet. King had seen the corrosive conscription crisis split the nation during World War One when Quebec was isolated in its opposition to enforced enlistment. The Prime Minister viewed the preservation of national unity as his primary job. As political scientists Richard Simeon and Ian Robinson have observed, "As long as there was no clear English-speaking majority position on the appropriate role of the state, electoral politics left King with room to manoeuvre...King preferred to avoid the kind of economic and social policy initiatives that [Quebec Premier Louis-Alexandre] Taschereau denounced in 1935."<sup>70</sup> (Taschereau had opposed the efforts of younger Liberals under the leadership of Paul Gouin to abandon laissez-faire and to adopt "an extensive scheme of labour and social legislation which would raise the incomes and provide greater economic security for the working class.")<sup>71</sup>

As the Prime Minister would later remark when key cabinet ministers wanted to disallow Quebec's draconian Padlock Law to shut down so-called communist media, which the Quebec Legislative Assembly had adopted in March 1937: "I took the view that in the last resort, the unity of Canada was the test by which we should meet all these things.... [We] had to consider, in our action, its effect upon the nation."<sup>72</sup> Although the Prime Minister disliked the legislation, he refused to disallow it.

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<sup>70</sup> Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism* (Toronto: University of Toronto Press, 1990) p. 82.

<sup>71</sup> As quoted in Simeon and Robinson, p. 71.

<sup>72</sup> Diary of William Lyon Mackenzie King for Wednesday, July 6, 1938.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=19223&>

It was only in the late 1930s that the voices of those who saw the nation through the lens of social needs – which could often be heard through the witnesses before the Rowell-Sirois Royal Commission – started to compete with the voices of those who espoused provincial language and cultural rights. Their voices were weak. But, as Simeon and Robinson have observed, they wanted Ottawa to take a more active role in social policy: “These elements [advocates for social security] argued that only the federal government possessed the fiscal resources and technical expertise to implement progressive social and economic policies.”<sup>73</sup>

But in early 1938, King still did not hear them. He did not want to upset the provinces, especially Quebec, by interfering with their constitutional responsibility for relief. He did not want Ottawa to centralize more power in the name of social cohesion and political stability: in his view, such actions would only *destabilize* the federation. He now had a wonderful excuse for delay: The federal government had happily punted the fate of the unemployed employables to the Rowell-Sirois Royal Commission. Surely it was logical that, as the commissioners tackled their mandate to redesign “the distribution of legislative powers in the light of the economic and social developments of the last seventy years,” they would examine the fate of the unemployed employables.<sup>74</sup> Why should Ottawa act until Rowell-Sirois reported?

### **The Commission Carries On**

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<sup>73</sup> Simeon and Robinson, 83.

<sup>74</sup> Terms of Reference of the Royal Commission on Dominion-Provincial Relations, August 14, 1937, in the Report of the Royal Commission on Dominion-Provincial Relations, p. 9.

<http://www.solon.org/Constitutions/Canada/English/Committees/Rowell-Sirois/book1-cover-intro-toc-tor.pdf>

While King dodged and feinted with Purvis and Rogers, the Commissioners ploughed through their onerous schedule of hearings. They spent the last two weeks of January 1938 in Ottawa, querying a parade of witnesses from national organizations. The Trades and Labour Congress demanded that labour and employment conditions “be uniform throughout Canada for competition to be fair.”<sup>75</sup> The commissioners were becoming wary of that word “fair” – which different groups would define far differently.

The Canadian Medical Association wanted Ottawa to take responsibility for the “health of the casual and chronic unemployed.”<sup>76</sup> As CMA General Secretary T. C. Routley earnestly told the commissioners:

It does seem to us illogical to say to an unfortunate individual or family, the Government will provide you with a house and fuel to keep you warm, clothing to keep you covered, and food to sustain you, but, if you have the misfortune to become ill, then you must take your chances of living or dying, because so far as the Federal Government’s responsibility goes, it washes its hands of the whole matter.<sup>77</sup>

But the CMA shied away from any call for national health insurance even as it acknowledged that German Chancellor Otto von Bismarck had introduced health insurance in 1883, future British Prime Minister David Lloyd George had done so in 1911 as Chancellor the Exchequer and forty other nations now had similar plans.

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<sup>75</sup> Analysis of Trades and Labour Congress brief in Evidence Taken At The Regina Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission, LAC, RG 33, Series 23, Vol. 60. p. 105.

<sup>76</sup> Analysis of Canadian Medical Association brief in Evidence Taken At The Regina Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission, LAC, RG 33, Series 23, Vol. 60. p.

<sup>77</sup> Canadian Medical Association before the Royal-Commission on Dominion-Provincial Relations, January 21, 1938. P. 3002.  
[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6991/86?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6991/86?r=0&s=4)

Instead, it called for studies on how each province might handle the issue, effectively using the complications of federalism as an escape hatch from an unwelcome policy.<sup>78</sup>

The Canadian Tuberculosis Association warned that, despite advances in health care, deaths were not declining among the First Nations population: Aboriginals constituted one per cent of the population – but represented eleven per cent of the deaths from tuberculosis. Ottawa, which had constitutional responsibility for Indians, should increase its spending on First Nations' health care by \$500,000. There was a pattern here: Advocacy groups – even those that thought Ottawa was neglecting its duties – were usually looking to Ottawa – *not* the provinces – for solutions to those needs.

Then the Royal Commissioners swung east to Halifax and Charlottetown. The commissioners could be cynical about those portions of the Maritime presentations that used any pretense to demand more money. One Nova Scotia municipality asked for \$80 to cover the cost of an inquest into the death of a rumrunner who had been shot at sea during a run-in with federal customs officers.<sup>79</sup> When the lawyer for one province – probably Nova Scotia – claimed that it had lost heavily when it entered Confederation, Rowell pointedly compared the federation to a marriage. “Would it not be better to think twice before separating and to remember that you had taken

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<sup>78</sup> Canadian Medical Association before the Royal-Commission on Dominion-Provincial Relations.

<sup>79</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 278.

each other for better or for worse.”<sup>80</sup> Silence ensued. When local residents later explained that the lawyer had just gone through what was then a very rare divorce, Methodist Rowell was unrepentant. Prince Edward Island wanted compensation for the profits that it might have made from liquor during Prohibition if it had remained outside Confederation.<sup>81</sup> That undoubtedly offended Rowell, too.

But the huge inequalities that existed in both provinces compared with the richer provinces also horrified the commissioners. Public health services in Prince Edward Island were meagre: That government wanted Ottawa to take responsibility for the treatment of communicable and preventable disease. Nova Scotia contributed one-eighth of its revenues to education – but the provincial and local governments had reached the limits of their ability to pay. The average salary of rural schoolteachers was \$536, which was low, even by the standards of 1938.<sup>82</sup> Resources were stretched to their limits.

Once again, the commissioners heard about the example of Australia. In his brief, Nova Scotia Premier Angus L. Macdonald cited the Australian experience with equalizing grants. The Premier suggested that Canada create a permanent commission “patterned to some extent upon the Grants Commission in Australia”: If provincial taxes were “appreciably above the normal rate” and government services were “appreciably below such normal standard,” those conditions should be

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<sup>80</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 261.

<sup>81</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 278. This reference does not appear in the commission’s analysis of the evidence, no doubt because the commission dismissed it out of hand.

<sup>82</sup> Analysis of Nova Scotia Government brief in Evidence Taken At The Halifax Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission, LAC, RG 33, Series 23, Vol. 60. p. 52.

corrected “by an appropriate special grant.”<sup>83</sup> This was a remarkable early effort at devising a system of equalization.

Macdonald wanted Ottawa to assume full responsibility for Old-Age Pensions and mothers’ allowances, perhaps through a constitutional amendment, because a poorer province “through no fault of its own cannot obtain sufficient revenue to support the normal standard [of services].”<sup>84</sup> He also wanted Ottawa to enact Unemployment Insurance.

Then he turned to the principle of fiscal need, moving through the Duncan and White Royal Commission reports to the Australian Commonwealth Grants Commission. Macdonald carefully culled lengthy quotations from the CGC’s first four reports. He maintained:

The principle of fiscal needs having been accepted as a basis of adjustment of differences in the Australian federal system after most careful consideration and analysis, there is no reason why in Canada every effort should be made to conceal the fact that fiscal need has been the determining factor as shown in practically all subsidy re-allocations. If it is practicable in Australia to work out a standard of grants on this basis it is equally practicable to do so in Canada.<sup>85</sup>

The Nova Scotia brief cited dozens of examples of the CGC’s wisdom, outlined how it chose its personnel, demonstrated the scope its inquiries, and included charts on the amounts of its annual grants. The experience of Australia, in fact, was a theme that ran throughout the 141-page brief, including its involvement with

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<sup>83</sup> Submission By The Government Of The Province of Nova Scotia To The Royal Commission On Dominion-Provincial Relations, February 1938, LAC, RG33/23, Volume six, pps. 25-26.

<sup>84</sup> Nova Scotia Submission, 38.

<sup>85</sup> Nova Scotia Submission, 72.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6982/908?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6982/908?r=0&s=4)



constitutional reform, the effect of its tariffs, the location of its industries, the establishment of its marketing agencies and the setting up of regular Dominion-Provincial Conferences. In effect, Australia was the model for Angus L. Macdonald's lucid proposals – and those proposals would influence the Commission's report.

The presentation – and its setting – had a remarkable effect on the stalwart McGeachy. Macdonald looked like “a bookkeeper with poetic aspirations.”<sup>86</sup> But “when he speaks, the effect is astonishing. He is the first witness to testify with utter self-confidence, no fumbling for words or ideas.”<sup>87</sup> While Westerners outlined their recent troubles, Nova Scotia chronicled grievances that were seventy years old, “something bred in the bone.” Macdonald even “sounded a little world-weary. He seemed to be telling the Commission he had been through this argument so often he doubted if a repetition was worth while.”<sup>88</sup>

As the testimony stretched into a second day, the veteran journalist was impressed with Macdonald's frequent references to Australia. He also lauded his approach, which was “an essay on economic trends, with the odd illustrative statistic thrown in, which is the elegant way to do it.”<sup>89</sup> McGeachy stressed the Premier's emphasis on Nova Scotia's unequal position within the federation – because of the tariff, transportation costs, the isolation, and the relative poverty in resources. Macdonald added that Nova Scotians were “poorer than other Canadians, citing how little their taxes yield though high in rate and their shortage of radios and

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<sup>86</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Friday, February 4, 1938. p. 1.

<sup>87</sup> McGeachy.

<sup>88</sup> McGeachy.

<sup>89</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Saturday, February 5, 1938. p. 1.

motor cars.”<sup>90</sup> (Rowell could not resist observing that they had more boats.) The journalist gravely noted Macdonald’s contrast of “federal grants to Australian states, running to \$20 a head, with the \$3 a head Nova Scotia gets from Ottawa.”<sup>91</sup>

Such complaints from the poorer provinces about inequality left the commissioners with little patience for the grievances of the wealthier provinces. In mid-March, in Victoria, British Columbia Premier Duff Pattullo argued that his province was also in an unequal position because Ottawa took more tax money out of his province than it put back into it. But British Columbia needed the money: His province was “still in a pioneering stage and dependent in the main on primary products for income.”<sup>92</sup> Its expenses – especially for resource development and social services in “modern times” – were enormous.<sup>93</sup> Once again, Australia appeared in a Province’s narrative: “Canada, unlike Australia or the Argentine, had no special monetary policy planned to meet economic distress”: So while Canada “relied on protection of her manufacturing industries to regain prosperity..... British Columbia suffered from this policy and received no special benefit.”<sup>94</sup>

Pattullo’s government faced political challenges. As the Premier’s biographer, historian Robin Fisher, observes, “The conditions of the depression decade had both

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<sup>90</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Saturday, February 5, 1938. p. 1.

<sup>91</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Saturday, February 5, 1938. p. 1.

<sup>92</sup> Brief of the Province of British Columbia to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 8. p. 177.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6984/148?r=0&s=5](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6984/148?r=0&s=5)

<sup>93</sup> Brief of the Province of British Columbia to the Royal Commission on Dominion-Provincial Relations, 177.

<sup>94</sup> Robin Fisher, *Duff Pattullo of British Columbia*, 318-319.

raised people's expectations and increased government's responsibilities."<sup>95</sup> The Premier espoused the ideal of "socialized capitalism": Capital should recognize "the duty and the desirability of giving larger consideration to the needs and welfare of society generally."<sup>96</sup> Governments, in turn, should redistribute that wealth. Ottawa should assume responsibility for unemployment relief, for health and welfare services for transients, and for infrastructure and resource development projects. Ottawa should also make room for the province to increase its income tax. "Inequalities and disabilities existing by reason of the application of the tariffs and freight rates should be adjusted."<sup>97</sup>

But, and this was crucial, British Columbia was fed up with sharing with the Rest of Canada. Pattullo insisted that his province had been treated inequitably: It had "not been dealt with in a measure of parity in comparison with the treatment accorded to the other Provinces by the Dominion."<sup>98</sup> He submitted a statement of claim based on fourteen specific demands, starting with British Columbia's "debts and liabilities" that existed at the time of Union with Canada in 1871.<sup>99</sup> The Premier even demanded that Ottawa pave the old wagon road that travellers had originally

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<sup>95</sup> Robin Fisher, *Duff Pattullo of British Columbia*. (Toronto: University of Toronto Press, 1991) p. 320.

<sup>96</sup> Robin Fisher, *Duff Pattullo of British Columbia*. (Toronto: University of Toronto Press, 1991) p. 215.

<sup>97</sup> Brief of the Province of British Columbia to the Royal Commission on Dominion-Provincial Relations, the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume eight. p. 351.

<sup>98</sup> Province of British Columbia, Claim for Readjustment of Terms of Union, Presented by Hon. T. D. Pattullo, Attorney-General Hon. G. McG. Sloan, Minister of Finance Hon. John Hart, to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume eight. p.31.

<sup>99</sup> British Columbia Claim, 32.

used before Ottawa constructed a railway across the province in the 1880s.<sup>100</sup> As Royal Commissioner Angus later recalled, Pattullo freely confessed, behind the scenes, that he was itemizing vast numbers of needs so that he could later horse-trade with the federal government.<sup>101</sup>

But his main aim was clear: British Columbia did not want more of its citizens' federal tax dollars to be allocated to poorer provinces. Indeed, it wanted to send less money to Ottawa. It did not want to share more. Even "the local press" dismissed that approach "as narrow and parochial" – but the Premier was undeterred.<sup>102</sup> As he would later tell the editor of the *Vancouver Province*: "The centralisers almost force one to appear in the light of a provincialist."<sup>103</sup> And Pattullo viewed the commissioners as centralizers.

The Premier's presentation ran contrary to the views of the provincial CCF, which had snared roughly 29 per cent of the vote in the June 1937 election. As MLA Dorothy G. Steeves later wrote, modern federations required "social planning, social security and provision for collective international agreement... These are functions which can only be carried out by strong, centralized action." Steeves added that there was "vociferous public demand" for public health and hospitalization "to which even Liberal governments have to lend an ear."<sup>104</sup> Pattullo was undeterred.

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<sup>100</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 277

<sup>101</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 276.

<sup>102</sup> Robin Fisher, p. 322.

<sup>103</sup> As quoted in Robin Fisher, *Duff Pattullo of British Columbia*. (Toronto: University of Toronto Press, 1991) p. 322.

<sup>104</sup> Dorothy G. Steeves, "A British Columbia View" in *The Sirois Report – A Discussion of Some Aspects*, *The Canadian Forum*, November 1940. P. 238.

McGeachy cast a dubious eye on most of the province's proposals – although he did report the province's claim that it was shortchanged in the queue for Dominion aid. "This seems to be proved by the figures," McGeachy observed cautiously, adding that the figures were "presumably not cooked to excess."<sup>105</sup> Then he riffed on federal subsidies: "The subject is complicated. The system of federal subsidies in Canada is certainly one of the craziest arithmetical puzzles ever hatched in the hallucinated brains of public financiers. A long lifetime would be needed to get the hang of it."<sup>106</sup> But McGeachy noted pointedly that Pattullo believed that Dominion grants should "not be based solely on either population or 'fiscal need' ...but on a survey of each province's economic position."<sup>107</sup> The Premier's ploy of asking for the moon would not work. Pattullo would talk compulsively about his disappointment with the Royal Commission for the remainder of his political life.<sup>108</sup>

Throughout the spring of 1938, the Rowell-Sirois Commission continued its weary slog across the nation. Only two provincial governments – Alberta and Quebec – had refused outright to cooperate. Both provinces just wanted Ottawa to leave them alone with enough revenue to fulfill their responsibilities. As well, Alberta was still irate over Ottawa's failure to extend financial assistance prior to its April 1936 default. Since then, the relationship had only grown worse. In 1937, Alberta Premier William "Bible Bill" Aberhart had attempted to restrict freedom of

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<sup>105</sup> J. B. McGeachy, "Confederation Clinic" in the *Winnipeg Free Press* on Friday, March 18, 1938. p. 1

<sup>106</sup> J. B. McGeachy, "Confederation Clinic" in the *Winnipeg Free Press* on Friday, March 18, 1938. p. 1

<sup>107</sup> J. B. McGeachy, "Confederation Clinic" in the *Winnipeg Free Press* on Thursday, March 24, 1938. p. 1.

<sup>108</sup> Robin Fisher, *Duff Pattullo of British Columbia*. (Toronto: University of Toronto Press, 1991) p. 357-358.

the press and to put the banks under provincial control. Lieutenant Governor John C. Bowen had refused to sign those Social Credit bills into law, arguing that they were unconstitutional. He had referred them to the Supreme Court, which would eventually agree with Bowen. But the Lieutenant Governor's principled conduct – he had been a Baptist minister – had infuriated Premier Aberhart. The populist Premier, who preached his blend of fundamentalism and Pentecostalism on a weekly radio show, objected to Ottawa's determination to uphold its constitutional rights. The federal government would disallow eleven Alberta statutes between 1937 and 1941.<sup>109</sup>

Aberhart also objected to the Royal Commission's very existence. When Prime Minister King had formally announced the Commission in mid-August 1937, Aberhart had furiously telegraphed his objections to the personnel and the mandate. He detected renewed hints about the imposition of a loan council. "Other equally dangerous and undesirable possibilities for centralizing financial control and weakening the sovereignty of THE PEOPLE of each Province are, in our view, certain to arise from these particular terms of reference and this particular Commission."<sup>110</sup> [Sic] Aberhart added a final shot: He was certain that King had moved with "precipitate haste" in announcing the commission so that it would coincide with Ottawa's recent disallowance of his provincial legislation.<sup>111</sup>

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<sup>109</sup> Howard Palmer with Tamara Palmer, *Alberta: A New History*. (Edmonton: Hurtig Publishers Ltd., 1990) p. 274.

<sup>110</sup> Alberta Premier William Aberhart to Prime Minister Mackenzie King, August 26, 1937, LAC, Provincial Matters – Alberta – Miscellaneous P 1-1-10, RG 19, Volume 3985, p. 3.

<sup>111</sup> Aberhart to King, 4.

King rebutted every point in the letter. There were no hints of a loan council in his press release. He had first announced the commission in the House of Commons in February 1937. The commissioners had no mandate to change the constitution. Finally, King could not ignore “the offensive remark in your last paragraph ... It appears to be part of a studied attempt to insinuate that there were ulterior motives in the appointment of the Royal Commission. Only to yourself will it be necessary to deny unequivocally that there was any connection...”<sup>112</sup>

It was clear that there was no leeway for compromise. The Premier refused to participate in the Rowell-Sirois hearings in Edmonton in the spring of 1938 – but his government did prepare a 377-page submission along with seventy extra pages of summaries and appendices, which it sent to Ottawa, which, in turn, forwarded it to the commission. That submission listed Alberta’s complaints about the “faulty financial system” and touted its monetary magic, which promised to replace cash with credit notes.<sup>113</sup> It called for Ottawa to assume responsibility for unemployment relief and old-age pensions, to recognize the “disabilities borne by the Province arising out of national policies such as the tariff and the present freight rate structure,” and to take responsibility for the special disabilities arising from Dominion monetary policy.<sup>114</sup> Ottawa should also inaugurate grants-in-aid for public health, education, mothers’ allowances and highway construction, pending

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<sup>112</sup> Prime Minister Mackenzie King to Alberta Premier William Aberhart, August 31, 1937. Australian Trade Commissioner L. R. Macgregor to the Department of External Affairs Secretary, p. 4.

<sup>113</sup> *The Case for Alberta: Dominion/Provincial Relations 1938*, Part 11, (Edmonton: A. Shanks, King’s Printer, Government of Alberta, 1938) p. 25.

<sup>114</sup> *The Case for Alberta: Dominion/Provincial Relations 1938*, 375.376.

“the transition period to a new economic order.”<sup>115</sup> In effect, Alberta maintained that Ottawa had put the province in an unequal fiscal position – and it had to pay for it.

Despite the mercurial Premier’s absence, the commission’s visit to Edmonton was dramatic. Under the guise of a frugality that seemed suspiciously like revenge, Aberhart cut off the utilities at Government House. The Commissioners were guests at a luncheon there when Aberhart turned off the water to force the Bowen family to move. No lieutenant governor would ever reside there again – although the Jacobean Revival-style building is now used for government dinners and receptions.

McGeachy was irrepressible. As he noted: “In other capitals the visitors have had polite bids to lunch, or even dinner, from the powers that be. Here they live in a social vacuum.”<sup>116</sup> Canadians surely shook their heads, especially when McGeachy imagined Aberhart dining “in solemn solitude at the town’s leading cafeteria.”<sup>117</sup>

But the commissioners did receive a significant 64-page brief from the Edmonton Chamber of Commerce, which effectively called for equalization. The Chamber outlined the five disabilities “that rendered Alberta so vulnerable when the recent depression began.”<sup>118</sup> Those included: the cost of pioneer development and railway branch lines, excessive freight costs, high interest rates, and Ottawa’s high tariffs. In

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<sup>115</sup> *The Case for Alberta: Dominion/Provincial Relations 1938*, 377.

<sup>116</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Thursday, March 31, 1938. p. 1.

<sup>117</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Thursday, March 31, 1938.

<sup>118</sup> Brief of the Edmonton Chamber of Commerce, p. 39.

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stark contrast with Ottawa's approach, the Edmonton Chamber complained, Australia and Argentina had depreciated their currencies during the Depression.<sup>119</sup>

Meanwhile, the cost of its social responsibilities was crippling Alberta. Ottawa should assume responsibility for "unemployment relief, unemployment insurance, old age pensions, pensions for the blind, widowed mothers' allowances, public health, hours of work, minimum wages, workmen's compensation, gaols and reformatories, and life, fire and other forms of insurance."<sup>120</sup> It should also increase its grants to the provinces for education and transportation infrastructure.

But its most striking recommendation was buried in a paragraph near the end of the brief when it demanded that Ottawa duplicate Australia's approach to fiscal inequality among states:

The establishment by the federal parliament of a permanent board or commission, somewhat after the pattern of the Australian Grants Commission, for the purpose of reconsidering, at regular intervals, what subsidies, subventions or grants should be paid by the Dominion to the various provinces; such reconsideration to be automatic, non-political and based upon submissions by the various provinces as to what would constitute fair subsidies in view of their respective positions within the Dominion and the varying incidence upon them of past and present current national policies.<sup>121</sup>

The commissioners carried on, united in their growing camaraderie amid the constant complaints about inequality and unfair treatment from the poorer *and* the wealthier provinces. And then came their hearings in Ontario – and the week that they would lose their chairman. Newton Rowell was the cornerstone of the

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<sup>119</sup> Brief of the Edmonton Chamber of Commerce, p. 41.

<sup>120</sup> Brief of the Edmonton Chamber of Commerce, p. 52.

<sup>121</sup> Brief of the Edmonton Chamber of Commerce, p. 63.

commission, the chief justice of the Supreme Court of Ontario, and the link to Ontario's obstreperous and relatively wealthy Liberal government, which was deeply suspicious of the commission. When Ontario Premier Mitchell Hepburn appeared on May 2, 1938, he seemed unsettled by Rowell's very presence. Commissioner Angus would later speculate that Hepburn was embarrassed. The Premier mispronounced words. His jokes fell flat. He was rattled.<sup>122</sup>

But that did not check Hepburn's anti-Ottawa diatribe. Ottawa should not have empowered a Royal Commission to handle this serious issue of redesigning the federation, fumed Hepburn. It should have called a Dominion-Provincial conference.<sup>123</sup> The commissioners should remember that \$75-million to \$80-million of Ontario residents' tax dollars went to the Maritimes and the Prairies every year – which represented \$21 per capita.<sup>124</sup>

Ontario was doing its best amid its squawking provincial dependents: "It is almost incredible that the Prairie Provinces should now claim disability against the rest of Canada because the wheat-growers of the Prairie Provinces were not enabled to enter into competitive devaluation of currency with Australia," the Premier observed.<sup>125</sup> Meanwhile, he declared, Prairie economists had proven that Nova Scotia's claim for compensation for the disabilities of the federation was incorrect.

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<sup>122</sup> Brief of the Edmonton Chamber of Commerce, 262.

<sup>123</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 1938. LAC, RG33/23, Volume 12. p. 25.

<sup>124</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 1938. LAC, RG33/23, Volume 12. p. 21.

<sup>125</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 1938. LAC, RG33/23, Volume 12. p. 16.

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“Perhaps, one could not find a more striking illustration of the practicalities of compensating provinces for the disabilities they claim (even the real ones) as a result of federal policy.”<sup>126</sup> In other words, provinces should not be permitted to blame the very act of federation for their fiscal woes.

Once again, Australia figured in a province’s arguments. Ontario opposed any centralization of social programs – despite the inequalities among the provinces. The provincial brief cited a quotation from the CGC, which observed that, despite the confusions of federalism, it was more efficient to have provincial administration of social programs than to unify the administration in Canberra – or, it added, in Ottawa.<sup>127</sup> Ontario also objected to any attempt to compensate provinces for the disabilities of the federation, especially the tariff. As the brief noted tartly, Australia had rejected any claim for grants based on such disabilities as the effects of the tariff: the Grants Commission had deplored “the validity of the whole basis of making claims on the grounds of the uneven effects of either individual or total federal policy.”<sup>128</sup>

There was a limit to Ontario’s generosity, and there should be a limit to Ottawa’s redistribution for the sake of national unity. “The Government of Ontario believes that the people of Ontario have carried their share, and more than their share of the

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<sup>126</sup> Statement of Honourable Mitchell F. Hepburn, 21.

<sup>127</sup> Statement by the Government of Ontario to The Royal Commission on Dominion-Provincial Relations LAC, RG33/23, Volume 12, p. 13.  
[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6986/584?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6986/584?r=0&s=6)

<sup>128</sup> Statement by the Government of Ontario to The Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 12, p. 79.

financial burden of Confederation,” Hepburn maintained.<sup>129</sup> There was more. “Equality between the Provinces is impossible...and yet, somehow, we must get along together,” the Premier proclaimed. “The Provinces are fiscal entities; and governments, like individuals, must learn to manage within their means.”<sup>130</sup> The other provinces had to curb their spendthrift ways. Ottawa had to scale back its share of income tax because “it is poor politics, and worse economy, that one government should tax for another to spend.”<sup>131</sup> The Premier concluded: “A sense of sectional injustice has too long retarded the national aspirations of the Canadian people.”<sup>132</sup> In effect, he wanted the poorer provinces to get over it.

It was an extraordinary performance – and a strong assertion of provincial rights – or at least, the rights of the richer provinces. As McGeachy observed almost gleefully:

The Great Hepburn, defender of hard-pressed Ontario against the idle rich of Saskatchewan and Manitoba.... looked as sleek and round as usual but less vivacious...As his jokes fell like pancakes in a puddle, Mr. Hepburn was obviously unhappy though he never lost his aplomb..... He was expected to put up a battle for provincial rights but nobody supposed his statement would be quite as full of half-baked economics, appeals to prejudice, jumbled logic and parish politics as it was.<sup>133</sup>

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<sup>129</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 1938. LAC, RG33/23, Volume 12. p. 22.

<sup>130</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 1938. LAC, RG33/23, Volume 12. Tuesday, May 3, 1938, p. 11.

<sup>131</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 193, 10.

<sup>132</sup> Statement of Honourable Mitchell F. Hepburn to The Royal Commission on Dominion-Provincial Relations, April 193, 21.

<sup>133</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Tuesday, May 3, 1938. p. 1.

The journalist noted that Hepburn divided the provinces into two apparently irreconcilable camps – and he viewed Western proposals to give new tasks and enlarged taxing powers to Ottawa as “nothing but an unashamed raid by the orphans of Confederation on the pockets of Central Canada.”<sup>134</sup> McGeachy added: “It was a hilarious performance, but the atmosphere was pretty grim. The Commission was not amused.”<sup>135</sup>

Although it is important to remember that McGeachy was an employee of the *Winnipeg Free Press*, and presumably inclined to favour the prevailing Western viewpoint, it appears that Hepburn really did go too far. Commissioner Henry Angus recalled that Hepburn’s “somewhat truculent presentation...shocked the newsmen and deeply hurt the Chief Justice...[He] was very distressed by the Commission’s reception in his home province.”<sup>136</sup> After Hepburn finished speaking, the dignified Rowell was sufficiently upset to make a brief statement: The commission was simply a “fact-finding body” that would issue recommendations for the consideration of a Dominion-Provincial Conference.<sup>137</sup> No more than that: It had no power to change the Constitution. To add to Rowell’s worries, he was also concerned about an important case before his Ontario court.<sup>138</sup>

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<sup>134</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Tuesday, May 3, 1938. p. 1.

<sup>135</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Tuesday, May 3, 1938. p. 1.

<sup>136</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, pp. 261-262.

<sup>137</sup> Digest of Briefs and Evidence for the Royal Commission on Dominion-Provincial Relations, FA 33- 20 (Series 23) part 2. p. 12. And “Conference Necessary Before Commission’s Findings Acted Upon” in *The Globe and Mail*, Tuesday, May 3, 1938. p. 2.

<sup>138</sup> Unpublished Autobiography of Henry Angus, p. 262.

But Rowell did not hold grudges. He did appear at a dinner on Wednesday, May 4, 1938, that Hepburn threw for the commissioners and their staff along with his cabinet members at the King Edward Hotel. The party was sedate until the abstemious Rowell left. Then, as Maritime commissioner R. A. “Bert” MacKay told his horrified wife Kathleen, the scotch flowed freely while Hepburn and the dean of the Saskatchewan law school, Frederick Clinton Cronkite, sang an off-colour duet. There were more songs and stories. The commissioners who stayed for the party and their staff could “not help liking him [the Premier], even though [they] might thoroughly disagree with him.”<sup>139</sup> Unlike Hepburn, however, the commissioners were clearly leaning toward greater financial equality among the governments. But they were coming to understand the varying notions of federalism – and the limits to remedying inequality.

During the party, two Ontario cabinet ministers and Deputy Provincial Treasurer Chester Walters apologized to MacKay for Hepburn’s speech, which confirmed MacKay’s view that Hepburn had formed a defensive alliance against Ottawa with Quebec Premier Maurice Duplessis: “Circumstances were such that he [Hepburn] more or less had to do it (no doubt his bargain with Duplessis) though he thoroughly disliked it.”<sup>140</sup> Hepburn himself “quit singing and remarked in my ear to

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<sup>139</sup> Royal Commissioner R. A. MacKay to his wife Kathleen MacKay, May 8, 1928. LAC. Royal Commission – Personal letters – Mackay to his wife Kathleen, 1937-38. MG30, Series E159. Volume 1d, eight.

<sup>140</sup>. Royal Commissioner R. A. MacKay to his wife Kathleen MacKay, May 8, 1928. LAC. Royal Commission – Personal letters – Mackay to his wife Kathleen, 1937-38. MG30, Series E159. Volume 1, seven.

the effect that Ontario wasn't so damned provincially minded and that we were all Canadians anyway."<sup>141</sup>

MacKay credited the party for the more conciliatory tone at the remaining Commission hearings in Toronto. But Rowell was failing. His health could not stand the stress. Five days after Hepburn's diatribe, on May 7, 1938, Rowell suffered a heart attack followed by a crippling stroke. His colleagues were stricken. Rowell had been well acquainted with Dafoe before the commission, and he had bonded with the other three during their arduous cross-country tours. The commissioners had known that Rowell's health had never been good. They had noticed that he rationed his strength for hard work. But those hearings were *really* intensive.

He was probably beyond help after the heart attack and the stroke. In Rowell's absence, Sirois became Acting Chairman. He would become Chairman when Rowell resigned in November 1938. By early August, Rowell could read a little – and apparently understand what was said to him. And that was all. But he would not die until November 1941, trapped in his silent netherworld. As his biographer, historian Margaret Prang, observes: "Not a few wondered whether his encounter with the brash and vulgar Hepburn had contributed to his illness."<sup>142</sup>

The commissioners were left reeling. But they somehow carried on. They finished their hearings in Toronto, and then continued in mid-May to Quebec City. There, they met with formidable representations of provincial cultural and linguistic rights.

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<sup>141</sup> Royal Commissioner R. A. MacKay to his wife Kathleen MacKay, May 8, 1928. LAC. Royal Commission – Personal letters – Mackay to his wife Kathleen, 1937-38. MG30, Series E159. Volume 1d, seven.

<sup>142</sup> Margaret Prang, *Newton Rowell: Ontario Nationalist*. (Toronto: University of Toronto Press, 1975) 496.

Despite Francophone Counsel St. Laurent's pleas, Quebec Premier Duplessis refused to appear as a witness – or to answer any of the twenty-three questions that Saint Laurent had submitted. (Sample: "What is the view of the Quebec Government as to the inclusion in the Canadian Constitution of safeguards for fundamental rights of citizenship, such as freedom of speech, of the press, of assembly, and of access to the Courts?")<sup>143</sup>

Instead, on the Quebec government's behalf, Quebec lawyer Emery Beaulieu read an eleven-page memo that endorsed Ontario Premier Mitchell Hepburn's opposition to centralization, depicting it as a feature "in countries that we call totalitarian."<sup>144</sup> How dare Ottawa ask a royal commission to look into provincial finances? "Under our federal system, each province, in its own sphere, constitutes an autonomous state, enjoying all the prerogatives of a sovereign state and not subject to federal power," Beaulieu read. (My translation.)<sup>145</sup> If Quebec recognized the Royal Commission's authority, it would have to "consent to sacrifice the prerogatives of provincial authority."<sup>146</sup>

Ottawa was *not* entitled to examine Quebec's financial position. If it wanted to pry into the nation's finances – and it should because Confederation had "prejudicially

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<sup>143</sup> Questions On Which The Commission Would Be Glad To Have The Views Of The Government Of Quebec," Royal Commission On Dominion-Provincial Relations, LAC, RG33/23, Volume 13, p. 4.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6987/329?r=0&s=5](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6987/329?r=0&s=5)

<sup>144</sup> Statement of Province of Quebec to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 13 p. 7.

<sup>145</sup> Statement of Province of Quebec to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 13 p. 2.

<sup>146</sup> Statement of Province of Quebec to the Royal Commission on Dominion-Provincial Relations, 3.



affected” Ontario and Quebec – it should work with the provincial legislatures. Provinces needed higher subsidies – and Ottawa should free up more tax room for provinces to raise their own revenues. Duplessis even thanked Hepburn for dismissing the complaints of the West about the disabilities of federation.<sup>147</sup> Quebec would share with its fellow provinces – *but* it would not abridge its rights under “the fallacious pretense of working for the common weal.”<sup>148</sup>

The Fathers of Confederation “belonging to two great races and two parties” had designed the federation to protect the rights of minorities.<sup>149</sup> Quebec would protect its distinct identity of francophone culture, religion and language – and any federal interference in those provincial rights would damage the Confederation pact. It was an unmistakable warning that Ottawa could not impose its terms on the province. *Le Devoir* printed the entire text of Beaulieu’s statement under the headline, “Ottawa should have started by consulting all the provinces.”<sup>150</sup> The statement would demonstrate why any postwar effort to centralize revenues to deal with fiscal inequalities among the provinces would fail.

The ever-curious McGeachy confirmed that Hepburn and Duplessis – “the Jonathan and David of Canadian politics” – had collaborated in their approach to the commission: “On learning that Mitch’s address to the Commission was to be a snooty repudiation of all responsibility to be helpful, Maurice agreed to co-operate

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<sup>147</sup> Statement of Province of Quebec to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 13. p. 8.

<sup>148</sup> “Quebec Denies Power of Dominion to Probe Provincial Finances” in *The Globe and Mail*, Friday, May 13, 1938. p. 15.

<sup>149</sup> Statement of Province of Quebec to the Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 13 p. 10.

<sup>150</sup> *Le Devoir*, Thursday, May 12, 1938. p. My Translation

on that basis.”<sup>151</sup> *Le Devoir* journalist Léopold Richer noted that the Commission could recommend anything that it wished, but “the federal government will think twice before recommending constitutional reforms...because of the attitude of Ontario and Quebec....no federal party will know what to do in the face of the combined opposition of Ontario and Quebec.”<sup>152</sup> That was a prescient insight. The next day, the Commission heard from four witnesses, including the Montreal Board of Trade, the Montreal division of the Chamber of Commerce, and lawyer Hector Lalonde from *La Société Saint-Jean-Baptiste de Montréal*. The Société’s brief was a constitutional review of Quebec’s place within Canada, and a fierce affirmation of the province’s rights. “In fact, and in law, Canada is a mixed nation: it constitutes two races, two cultures, two civilizations...we wish to review the consistency of this phenomenon back through the double Canadian personality which has generated it.”<sup>153</sup>

Then the Société started with Jacques Cartier’s voyage in 1534, scrolling up to the present. “If one admits that the life of a province, its economic, social, political life, must be organized in a manner that allows the province to conserve its moral and spiritual heritage – culture and civilization – it is necessary that its political climate allows it to grow in its innate fashion...If the federal government sincerely wants to do a great service to the Province of Quebec, which service will also benefit all of

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<sup>151</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Friday, May 13, 1938. p. 1.

<sup>152</sup> Léopold Richer, “Sur l’accueil plutôt frais de l’Ontario et du Québec à la commission Rowell,” *Le Devoir*, Friday, May 13, 1938. pps. 1-2. My translation.

<sup>153</sup> Brief of the Société Saint-Jean Baptiste de Montréal, Royal Commission on Dominion-Provincial Relations, LAC, RG33/23, Volume 13, p. 186. (Text page p. 3) My translation.

Canada, it is not through centralizing the administration of social laws, but in supporting the economic recovery.”<sup>154</sup> It was a discreet warning that the absent Duplessis would surely have cheered.

But the Quebec Premier was not without politesse. The commissioners had lunch at Government House on the same day – and the Premier sat next to the bilingual Angus. “He was quite genial and, in a somewhat malicious way, witty,” Angus later recalled.<sup>155</sup> The commissioners still hoped that Duplessis would relent – and testify – addressing the list of twenty-three questions that St. Laurent had posed. The Premier then invited everyone to dinner at the Chateau Frontenac. They accepted, again. Still hoping. It turned into a rowdy evening. As historian Dale C. Thomson notes: “An ardent baseball fan, Duplessis proved expert in knocking out electric light bulbs with champagne glasses.”<sup>156</sup> The party continued throughout the night. Angus recalled that St. Laurent had asked him after Hepburn’s Toronto party what the people of Ontario would say about the conduct of their leaders. Now he could not resist posing the same question to the dignified St. Laurent.<sup>157</sup> He did not record the answer.

Duplessis never did appear before the commission. As his biographer Conrad Black explains, he and Hepburn were annoyed at Ottawa for its refusal to authorize hydroelectric exports to the United States. This would remain a “considerable

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<sup>154</sup> Brief of the Société Saint-Jean Baptiste de Montréal, Royal Commission on Dominion-Provincial Relations. p. 199. (Text page 28). My translation.

<sup>155</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 281.

<sup>156</sup> Dale C. Thomson, *Louis St. Laurent: Canadian*. (Toronto: Macmillan of Canada, 1967). p. 95.

<sup>157</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 281.

irritant to federal-provincial relations for many years.”<sup>158</sup> But Duplessis would stop drinking at the beginning of 1942. And he would become one of the key proponents of provincial rights who would force Ottawa to find a better way to share among the provinces.

The fiscal gulfs within the federation were now much clearer to the commissioners. After Quebec City, at the commission’s next stop in Fredericton, New Brunswick, the provincial government pleaded for the ability to improve the quality of its social services for its faltering communities. The Province rejected any principle of equality among the provinces when calculating federal subsidies: It was “quite apparent from the record that the grants to the provinces have always been based upon the principle of fiscal need....[But] the fiscal need of one province may be quite different from the fiscal need of another province.”<sup>159</sup>

The Province of New Brunswick had been unfairly placed in an unequal situation: Wealth is centralized in one or two provinces and the future of the Dominion depends upon a proper adjustment of revenue, and the consideration of the resources of one province as compared with other provinces. We do not advocate a redistribution of all the wealth in Canada but what we say is that, to the extent that allowances are necessary in some provinces, the burden should fall upon the provinces which have most profited by the operation of the Confederation system.<sup>160</sup>

For New Brunswick, social cohesion and national unity were at risk if Ottawa did *not* share more funds with the poorer provinces in recognition of their fiscal need.

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<sup>158</sup> Conrad Black, *Render Unto Caesar: The Life and Legacy of Maurice Duplessis* (Toronto: Key Porter Books Limited, 1998) p. 156.

<sup>159</sup> Submission by The Government Of The Province Of New Brunswick to the Royal Commission on Dominion-Provincial Relations, Part 1, LAC, RG33/23, Volume 13 p. 10.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6987/345?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6987/345?r=0&s=4)

<sup>160</sup> New Brunswick submission, p. 11.

The province needed money to expand social programs. Illiteracy rates were the highest in Canada.<sup>161</sup> Less than 8,500 of 92,000 children of secondary school age in New Brunswick were actually attending school.<sup>162</sup> The province spent half as much per pupil as Ontario did.<sup>163</sup> New Brunswick had a plan for the exhausted commissioners: Ottawa should set the standards for education and then hand over the cash to fund those programs to the provincial government, which would administer the programs. The province would make sure that the money went where it was needed. If the outcome was unsatisfactory, Ottawa could revoke the grants because they would have a specific time limit.<sup>164</sup>

McGeachy was baffled when the province suggested that “income tax, sales tax, and succession duties should all be reserved for the provinces.”<sup>165</sup> When the Commissioners inquired as to “how the Dominion could find the money to finance social services if deprived of these sources, [the province’s lawyer] was not sure.”<sup>166</sup>

Other witnesses guardedly backed the impoverished provincial government. The Union of New Brunswick Municipalities related the plight of the failing pulp-and-paper town of Newcastle. The town had spent \$3,300 on education in 1901 and

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<sup>161</sup> Analysis of the Union of New Brunswick Municipalities brief in the Analysis of Evidence Taken At The Regina Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission, LAC, RG 33, Series 23, Vol. 60. p. 50.

<sup>162</sup> Analysis of the Union of New Brunswick Municipalities brief in the Analysis of Evidence Taken At The Regina Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission, LAC, RG 33, Series 23, Vol. 60. p. 50.

<sup>163</sup> Analysis of the Union of New Brunswick Municipalities brief. 50.

<sup>164</sup> Analysis of the Union of New Brunswick Municipalities brief. 50.

<sup>165</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Thursday, May 19, 1938. p. 1.

<sup>166</sup> J. B. McGeachy, “Confederation Clinic” in the *Winnipeg Free Press* on Thursday, May 19, 1938. p. 1.

\$33,000 in 1931 – “with practically no increase in population.”<sup>167</sup> The New Brunswick Teachers Association appealed for federal funds “to equalize educational opportunities” within the province – and presumably within the Rest of Canada.<sup>168</sup> Those were the laments of the impoverished who could never raise enough money on their own.

When the hearings resumed in Ottawa in late May, the influential Canadian Welfare Council (CWC) emphasized the key role of the State in the security of the individual. Citizens should be able to find such employment “as will make possible at least minimal subsistence.” When that could not be sustained, “it devolves upon the state to assure, directly or indirectly, the provision of aid necessary to the survival of life.”<sup>169</sup> Intriguingly, the brief viewed increased social aid *as the remedy for dependency*: “The persisting and increasing extent of dependency among our population taps at the very source of national virility and that sense of reasonable security, necessary to the growth of courage, freedom and independence. The task immediately before us is to work out, within the present Canadian social structure, reasonably tolerable conditions of social well-being in our generation, without

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<sup>167</sup> Analysis of the Union of New Brunswick Municipalities brief in the Analysis of Evidence Taken At The Regina Sitzings of the Royal Commission, prepared for the Rowell-Sirois Commission, LAC, RG 33, Series 23, Vol. 60. p. 51.

<sup>168</sup> Brief of the New Brunswick Teachers Association to the Royal Commission on Dominion-Provincial Relations, LAC, RG 33, Series 23, Vol. 14. p. 7.

<sup>169</sup> “Welfare Services for the Canadian People: A summary of the submission of The Canadian Welfare Council to the Commission on Dominion-Provincial Relations, Ottawa, May 1938,” RG33/23, Volume 13 p. 1.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6988/123?r=0&s=5](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6988/123?r=0&s=5)

prejudice to the Canada of a hundred years hence.”<sup>170</sup> The brief went on to outline a complicated system of contributory and non-contributory services that different levels of government could administer: Ottawa, for one, could handle Unemployment Insurance, health insurance and Old-Age Pensions.<sup>171</sup>

A few days later, on May 30, 1938, the five-person delegation from the Canadian Chamber of Commerce bustled into the hearing room at the Board of Railway Commissioners with a brief that presented “a national standpoint and a businessman’s standpoint” on Canada’s problems.<sup>172</sup> Perhaps unsurprisingly, the Chamber called for balanced budgets, smaller government and federal old-age pensions. But the Chamber representative H. W. Morgan pushed for the establishment of a loan council similar to the Australian Loan Council: If a province needed loans from Ottawa to meet its financial obligations, the federal loan council would provide “some supervision of [the province’s] expenditures and the conditions of the loan.”<sup>173</sup>

Even more surprisingly, the Chamber called for the establishment of a permanent grants commission – similar to the Australian Grants Commission – to investigate

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<sup>170</sup> “Welfare Services for the Canadian People: A summary of the submission of The Canadian Welfare Council to the Commission on Dominion-Provincial Relations d, p. 1.

<sup>171</sup> “Welfare Services for the Canadian People: A summary of the submission of The Canadian Welfare Council to the Commission on Dominion-Provincial Relations d, p. 3.

<sup>172</sup> H. W. Morgan, Representative of the Canadian Chamber of Commerce, to the Royal Commission on Dominion-Provincial Relations. May 30, 1938.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6995/1098?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6995/1098?r=0&s=4)

<sup>173</sup> H. W. Morgan, Representative of the Canadian Chamber of Commerce, to the Royal Commission on Dominion-Provincial Relations. May 30, 1938. p. 9553.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6995/1146?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6995/1146?r=0&s=4)

the “fiscal needs” of the provinces at regular intervals.<sup>174</sup> As Morgan explained: “The Grants Commission would very definitely investigate the necessity of assisting, of increased subsidies.”[Sic] If a province needed funds for a specific purpose, the grants commission would examine that request from “the standpoint of the Canadian citizen” rather than the standpoint of governments.<sup>175</sup> Morgan did not say, and probably could not have said, how that could be accomplished. But the Chamber’s stand was an indication of how the fiscal plight of the poorer provinces – and the Australian solution – had riveted public attention.

The commissioners were also treated to one of Research Director Skelton’s pranks. He slotted Tim Buck, general secretary of the Communist Party of Canada (CPC) into the witness line-up – just before the appearance of the president of the National Research Council of Canada, temporarily retired Major-General Andrew McNaughton, who would later command the Canadian forces in Europe. Skelton might have wished to provoke fireworks between the two as they crossed paths. But the Commissioners likely disappointed Skelton because they approached both witnesses with fascinated questions.

Buck was an extreme centralizer in the quest for social security: he wanted Ottawa to provide Unemployment Insurance and relief, health insurance, minimum educational standards, Mothers’ Allowances, Old Age Pensions, aid to youth, and housing and labour standards. He also wanted Ottawa to assume control over *all* companies, which were now the “complete dictators of the economic life of the

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<sup>174</sup> H. W. Morgan, Representative of the Canadian Chamber of Commerce, to the Royal Commission on Dominion-Provincial Relations. May 30, 1938, p. 9553.

<sup>175</sup> H. W. Morgan, Representative of the Canadian Chamber of Commerce, to the Royal Commission on Dominion-Provincial Relations. May 30, 1938d, p. 9554.



country.”<sup>176</sup> Corporate bosses had become the modern family compact that controlled the government.

The CPC General Secretary told the commissioners that his brief did not represent his party’s final goal, which was “the collectivization of industry, mines, railways and factories.”<sup>177</sup> He also reassured the commission that “armed struggle” had been eliminated from the CPC’s constitution.<sup>178</sup> When the commission’s Anglophone Counsel James Stewart asked if extreme views on one side provoked extreme views on the other – “if fascism was not the fruit of communism” – Buck denied that Communists were extreme. “I’m a very conservative individual,” he maintained.<sup>179</sup>

Despite such political jousting, the commissioners were more interested in Buck’s parsing of the national income, which used Dominion Bureau of Statistics figures to underline the ongoing inequality among individual Canadians. Roughly 3,600 people – or six-tenths of one per cent of the population – had pocketed more than twenty-five per cent of total Canadian income in 1934.<sup>180</sup> In contrast, Buck maintained, 3.4 million people – that is, ninety per cent of the employed – received fifty-one per cent of the national income.<sup>181</sup> Remarkably, the commissioners questioned Buck for much of that sunny June day.

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<sup>176</sup> “Toward Democratic Unity for Canada,” Submission of the Dominion Committee, Communist Party of Canada, to the Royal Commission on Dominion-Provincial Relations, ed. Alderman Stewart Smith. (no publisher listed and no date) p. 41.

<sup>177</sup> “Reds, Peaceful, Buck Declares” in *The Globe* on Thursday, June 2, 1938. p.3.

<sup>178</sup> “Reds, Peaceful, Buck Declares” in *The Globe* on Thursday, June 2, 1938. p.3.

<sup>179</sup> “Reds, Peaceful, Buck Declares” in *The Globe* on Thursday, June 2, 1938. p.3.

<sup>180</sup> General Secretary Tim Buck of the Communist Party of Canada to the Royal Commission on Dominion-Provincial Relations on June 1, 1938. p. 9728:

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6995/1327?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6995/1327?r=0&s=6)

<sup>181</sup> Buck, p. 9732.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6995/1331?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6995/1331?r=0&s=6)

In contrast, Major-General McNaughton of the National Research Council (NRC) was relatively brief – but he did offer a stout defence of organized scientific research in Canada, which had been “almost non-existent” prior to the twentieth century.<sup>182</sup> He pleaded for the continuation of funding for *national* scientific research – despite the existence of provincial research councils.

### **The International Models**

The workings of the Australian federation – particularly the Commonwealth Grants Commission – were a topic of great fascination in Canada during the 1930s. In June 1936, the Interim Report of the National Employment Commission had called for the establishment of “demonstrated need” as a basis for Dominion grants-in-aid to the provinces. That captured the emerging approach to fiscal inequality during that era.<sup>183</sup> In May 1938, the Bank of Nova Scotia devoted its entire *Monthly Review* to an examination of special grants in the Australian federation: “There can be no doubt that it has achieved its primary purpose of saving the three States from extreme financial embarrassment...It does not seem to have contributed to

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<sup>182</sup> Major-General Andrew McNaughton to the Royal Commission on Dominion-Provincial Relations on June 1, 1938. p. 9879.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6996/51?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6996/51?r=0&s=4)

<sup>183</sup> Interim Report Of The National Employment Commission, June 1, 1936 to June 30, 1937. (Ottawa: J. G. Patenaude, Printer To The King’s Most Excellent Majesty: 1937) 19. National Archives of Australia, Canada – Economic & Financial, Series number A981, Control symbol CAN 18 Part I, Barcode 173366. n.p. in file.

extravagance on the part of the States and the method used to determine the grants should be protection against such a development in the future.”<sup>184</sup>

The commissioners’ hearings carried on in tandem with their search for international models for federal sharing. As I will show, there were many reports on Australia. There were also several on Argentina, Switzerland, and the United States. Several of those reports were filed informally with Commission records – and were not recorded as official research studies. But, officially and unofficially, the Royal Commission was diligent.

Perhaps the most significant clue as to their thoughts occurred just before the hearings commenced. As the chairman of the Institute of Pacific Relations and one of the founders of the Canadian Institute of International Affairs, commissioner Dafoe knew many foreign dignitaries. On November 24, 1937, he wrote to his Australian friend, the chairman of the Commonwealth Grants Commission, F. W. Eggleston. “I note that in the studies that are being carried on by our economic and taxation experts, much attention is being paid to experiments, if I may call them so, which are being carried out by Australia. There is, I think, exceptional interest in the work of the Special Grants Commission [sic] of which I note you are chairman.”<sup>185</sup>

The cordial reply, which would not arrive until April 1938, probably startled Dafoe. Eggleston sent copies of CGC reports and newspaper supplements. And he added a rueful observation. “A good many financial authorities from [North]

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<sup>184</sup> “Special Grants in the Australian Federation,” The Bank of Nova Scotia *Monthly Review*, Toronto, May 1938. The National Archives of Australia, Canada – Internal Politics, Series A 981, Control symbol CAN 24 Part 1, Barcode 173375. p. 4.

<sup>185</sup> Royal Commissioner J. W. Dafoe to Commonwealth Grants Commission Chairman F. W. Eggleston, November 24, 1937. National Archives of Australia, MS423, 15. 9. 1.

America have been in Australia recently,” Eggleston wrote. “They all express interest and general approval of our principles, but say they would not do in United States of America or Canada as the case may be.” Eggleston added that he did not quite understand the reason for this rejection. “But [I] presume that it is because of the different financial situation of the Constitutional members, especially as to debit. My theory is that in a Federation it is most unlikely that the operation of various factors will produce equality, *and this must be rectified after careful assessment.*”<sup>186</sup> Dafoe would do his best to follow that advice – and Australia was clearly in his sights.

Meanwhile, Secretary Alex Skelton started to produce international experts for the commissioners’ Ottawa hearings. On January 28, 1938, they interviewed former German Chancellor Heinrich Brüning on the operation of federalism during the then-vanished Weimar Republic. He described how richer states such as Hanover and Prussia were compelled to transfer:

a certain part of the income tax normally to be refunded to them and this was re-distributed on a very complicated key [sic], taking into consideration the amount of population, not the amount of wealth of taxable income, but the actual number of population, the expenditure for education and for welfare, for unemployment benefit and everything like that. And by that way the poorer states got a special grant out of the pocket of the rich industrial states.<sup>187</sup>

On April 21, 1938, the Commissioners heard from University of London law professor Ivor Jennings, who explained how the unitary state of England handled

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<sup>186</sup> Commonwealth Grants Commission Chairman F. W. Eggleston to Royal Commissioner J. W. Dafoe, April 22, 1938. University of Manitoba Archives, John W. Dafoe Fonds, Box 8, Folder 3. p. 2. My italics.

<sup>187</sup> Evidence of former German Chancellor Heinrich Brüning to the Royal Commission on Dominion-Provincial Relations, January 28, 1938, LAC, RG 33, Series, 23, Volume 20. pp. 3743-3744.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6991/751?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6991/751?r=0&s=6)

the division of powers among lower levels of government. When Commission lawyer Carl Goldenberg asked if the national government's assumption of services reflected "the fact that local taxation is not sufficiently flexible or elastic to meet modern needs," Jennings first hedged his reply with the weary assertion that local authorities always insisted on corresponding grants when new services were established.<sup>188</sup> When Commissioner MacKay posed that question again, Jennings agreed tersely.

On May 25, 1938, mere weeks after Rowell became incapacitated, Skelton even produced the famed Swedish political economist Gunnar Myrdal who described his nation's taxation system along with its relatively new social support systems. The "big trouble" was the great variation in the rates among different counties and communities:

In Stockholm here a number of the large corporations have their site, and where a lot of rich people live we have a rather low taxation and still we can go on with very large expenditures, while in poorer country districts the taxation is high and the standard of expenditure is low. That is our difficulty, to get rid of that, and our way of doing it is to give over more and more to the state of expenditure and also to give much more percentage of rate to the poor districts.<sup>189</sup>

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<sup>188</sup> Evidence of University of London law professor Ivor Jennings to the Royal Commission on Dominion-Provincial Relations, April 21, 1938, LAC, RG 33, Series, 23, Volume 25. pp. 6714D-6715D.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6993/1043?r=0&s=6](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6993/1043?r=0&s=6)

<sup>189</sup> Evidence of Stockholm University political economy professor Gunnar Myrdal to the Royal Commission on Dominion-Provincial Relations, May 25, 1938, LAC, RG33, Series 23, Volume 28. pps. 9142-9143.

[http://heritage.canadiana.ca/view/oocihm.lac\\_reel\\_c6995/712?r=0&s=4](http://heritage.canadiana.ca/view/oocihm.lac_reel_c6995/712?r=0&s=4)

He added dolefully that Sweden still had “not solved the problem.”<sup>190</sup> But it was a fascinating description of the struggle to assist poorer governments as the demand for social services escalated within the modern nation-state.

Then came experts on American federalism, including the Acting Director of the U. S. Budget Bureau, D. W. Bell, who discussed the division of powers between states and the federal government in education, highways, social services and relief, and the Under Secretary for the Treasury, Roswell Magill, who reviewed the taxation aspects of federal finance.<sup>191</sup> In October 1938, the research director of the Rockefeller Center in New York, Canadian-born Bryce M. Stewart, outlined how the United States handled unemployed insurance and basic social services such as old-age assistance – and what that nation should have done differently.<sup>192</sup>

Meanwhile, the thousands of pages on federalist models in the Royal Commission files remain astonishing. Calgary lawyer H. E. Crowle, who was on contract to the Commission, wrote a fourteen-page report on Argentina – “Argentina is in the happy position, due largely to the preponderating power of the federal capital, which is a state of itself directly under the federal power, of having a federation whose federal government is in a very real sense the dominant government” – along with studies on Switzerland, New Zealand (which was/is not a federation), and marketing and

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<sup>190</sup> Evidence of Stockholm University political economy professor Gunnar Myrdal to the Royal Commission on Dominion-Provincial Relations, May 25, 1938. p. 9144.

<sup>191</sup> Research Director D. A. Skelton to Acting Director of the U. S. Budget Bureau, Daniel Bell, May 23, 1938, Royal Commission on Dominion-Provincial Relations, LAC, C-6988, RG33, Series 23,

<sup>192</sup> Evidence of New York’s Rockefeller Center research director Bryce M. Stewart to the Royal Commission on Dominion-Provincial Relations, October, 20, 1938, Royal Commission on Dominion-Provincial Relations, LAC, C-6988, RG33, Series 23, Volume 30, pps. 9988-10077.

price control in Sweden and Denmark.<sup>193</sup> Crowle wrote eighty-one pages on such topics as Australian banking and the Premiers' Plan.<sup>194</sup> He also wrote a nine-page report on Australia's financial history, including the workings of the Loan Council and the Premiers' Plan. He marveled at "the extent of the powers given to the Australian Federal Parliament...by the amendment of the Constitution [in 1929]."<sup>195</sup>

Other researchers pried into every aspect of federalism. University of Toronto dean of law W. P. M. Kennedy compared the distribution of legislative powers over welfare, taxation, labour, treaty-making and residual powers in Argentina, Australia, the United States and Switzerland. The meticulous 47-page section on Australia concluded that the federation had endured "inadequate distribution of powers, their conflicts, duplication of governmental machinery and a host of uncoordinated services," which extra-constitutional conferences had remedied.<sup>196</sup> Kennedy's 166-page report likely dashed any notions that Australia had devised the perfect approach to federalism. But Kennedy did *not* examine federal transfer payments to

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<sup>193</sup> H. E. Crowle, "Comparative Federalism: Report on the Republic of Argentina," Report for the Royal Commission on Dominion-Provincial Relations, LAC. RG33, Series 23, Volume 60. p. 1.

<sup>194</sup> H. E. Crowle, "Comparative Federalism: "Preliminary Report on Banking in Australia"; "Transportation In Australia"; "Commercial Law In Australia: Final Report On Marketing And Price Control"; "Preliminary Report On Insurance and On Corporations In Australia"; "Preliminary Report On Incorporation And Regulation of Corporations In Australia"; "Commercial Law in Australia"; "Preliminary Report On Australian Refunding Agreements." H. E. Crowle, Australia: Comparative Federalism, Royal Commission on Dominion-Provincial Relations, LAC, RG 33, Series 23, Volume 60, pps. 1-81.

<sup>195</sup> H. E. Crowle, "Comparative Federalism: Report on Australian Refunding Agreements," LAC. RG 33, Volume 60. P. 8.

<sup>196</sup> University of Toronto dean of law H. P. M. Kennedy, "Study of Federal Constitutions," LAC, RG33, Series 23, Volume 38, p. 55

the states to remedy inequality, which were becoming the focus of the commission's studies.

It is clear that the Royal Commission was concentrating on remedies for fiscal inequality within a federation – if only to preserve cohesion and political stability. Was there a better model than the continuation of ad hoc grants and loans for ensuring that poorer states were compensated for their inequalities – so that they could provide better services to their citizenry? Skelton asked one of his former research staffers at the Bank of Canada to do a special report on the Commonwealth Grants Commission: as John Dafoe would later tell Henry Angus in a chatty letter from Winnipeg on July 5, 1938: “Jimmy Coyne who has been making a detailed study of the operation of the Grants Commission tells me (he is here on his holidays) that his paper runs to 225 pages...A Grants Commission on the Australian model would never do for Canada and I don't think it will have a welcome for much longer in Australia.”<sup>197</sup> So much for prescience. That “Jimmy” would replace Towers as Bank of Canada Governor in 1955: he would be in office when Ottawa introduced equalization legislation – *albeit based upon a different formula* – in 1956. And the Australian Commonwealth Grants Commission is still in operation.

Coyne's meticulous report for the Royal Commission was entitled “Federal-State Financial Relations in Australia, July 1938.” It eventually ran to 185 pages, including a 24-page summary. It would review everything from the early constitutional approach to financing state equality through to the establishment of the

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<sup>197</sup> John Dafoe to Henry Angus, July 5, 1938. University of Manitoba Archives, John W. Dafoe Fonds. Box 14, folder 1, pps. 3-4.



Commonwealth Grants Commission and the Premiers' Plan.<sup>198</sup> Coyne also wrote a 79-page report on "Federal-Provincial Financial Relations in the Argentine Republic," which bears the inscription: "It was thought that a summary of recent public finance history in the Argentine, similar to that prepared for Australia, would be useful."<sup>199</sup> It was also dated July 1938, and it also analyzed federal and state government functions, as well as federal and state taxation.

Commissioner Henry Angus also wrote a concise (and lively!) 20-page summary of Federal Finance in Australia, covering the evolution of the Commonwealth Grants Commission and the Loan Council from 1901 to 1937. The economist elicited broad principles from Australian legislation and from each annual CGC report. His criticism could be trenchant: Angus explained that, in its fourth year, the CGC had adopted the same qualifications for aid as in previous hearings, but it had added that it would entertain other arguments. "The result is another very long report with almost incredible repetition."<sup>200</sup> The solution for inequality was always elusive.

By then, Dafoe was already wary of any attempt to transplant the Australian model without adjustments. As he told Grants Commission chair Eggleston in a revealing hand-written letter on July 5, 1938 – the same day that he told Angus

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<sup>198</sup> "Federal-State Financial Relations in Australia, July 1938," Coyne, J. E., "Federal State financial relations in Australia," Royal Commission on Dominion-Provincial Relations, LAC, RG33, Series 23, Volume 59. pps. 1-25 (Summary) and pps. 1-159 (Full report).

<sup>199</sup> "Federal-Provincial Financial Relations In The Argentine Republic, July 1938," Coyne, J. E., Federal-Provincial financial relations in the Argentine Republic," Royal Commission on Dominion-Provincial Relations, LAC, RG33, Series 23, Volume 59. pps. 1-82.

<sup>200</sup> "Comments By Prof. Henry Forbes Angus On Federal Finance In Australia," for the Royal-Commission on Dominion-Provincial Relations, H. F. Angus file, LAC, RG33, Series 23, Volume 71. p. 15.

about Coyne's visit – the Royal Commission had sparked Canadian debate about the state of the federation: "There has been more discussion and study of our national difficulties and problems in the last six months than in the previous 15 years. There has been a revelation of conflicting interests and loyalties that has shocked and stirred up opinions, which is all to the good." Then Dafoe added pointedly: "Australia has figured largely in the discussions and I believe we are to have the benefit of a talk with [Australian expert L. F.] Giblin next month. But Australia and Canada are very different propositions."<sup>201</sup>

Still, as I will show, Dafoe and his fellow commissioners would eventually adopt key aspects of Australia's approach to fiscal inequality among the states in their report – including the emphasis on fiscal need when calculating grants, as opposed to an analysis of the "disabilities" that federation inflicted on its members. (Modern equalization, of course, is based on the ability to raise tax revenues.) But that would take many more debates.

### **The Problem of Fiscal Need**

Indeed, despite so much expert work, one fundamental issue remained unresolved. The commissioners and their staff could not resolve the serious questions about fiscal inequalities among governments – and the remedy for it. On July 22, 1938, Skelton told Dafoe that the research team had "not yet done any of the work you suggested on possible fiscal need formulae and can do very little" until the

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<sup>201</sup> Royal Commissioner John W. Dafoe to Commonwealth Grants Commission Chairman F. W. Eggleston, July 5, 1938. National Archives of Australia, MS423, 1/55. p. 2.

reports on federal finances and national income were completed.<sup>202</sup> Dafoe was looking for remedies for fiscal inequalities based upon the principle of what the provinces needed to pay for government operations – as was the Commonwealth Grants Commission that he investigated.

As Canadians now knew, the Australian Commission did accept fiscal need as a basis for assistance. But it had repeatedly refused to recognize the disabilities that the mere act of federation had imposed on individual states as a justification for grants. In early 1938, in its Fifth Report, the CGC explained, with some asperity, that it had continually rejected such disabilities – and that states should stop citing them.

Suppose, the report added, that grants were awarded on the basis of disabilities stemming from federation? The more prosperous states might then qualify for a grant – even though their wealth “would mean that other favorable influences had counterbalanced the unfavorable effect of the item of federal policy shown to be adverse.”<sup>203</sup> If states wanted to claim for disabilities, the CGC report asserted, they would also have to count the benefits of federation. And that would be difficult. Moreover, the report added, individuals as well as states experienced the effects of federal policies such as the tariff. But it would be “absurd” to compensate a claimant

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<sup>202</sup> Research Director Alexander Skelton to Commissioner John Dafoe, July, 22, 1938. John W. Dafoe Fonds, University of Manitoba Archives, box 14, folder three, p. 2.

<sup>203</sup> Fifth Report (1938) of the Commonwealth Grants Commission, Applications made by the States of South Australia, Western Australia and Tasmania, for Financial Assistance in 1938-39 from the Commonwealth under Section 96 of the Constitution. (Canberra: L. F. Johnston, Commonwealth Government Printer, 1938) National Archives of Australia. Series AWM68, Control Symbol 3DRL 8052/129 Part 1A, Barcode 496892, p. 41.

state “because some of its citizens suffered, and not to compensate other States or individuals affected in a similar way.”<sup>204</sup>

The Sixth CGC report, which appeared in early 1939, was equally vehement: “We are convinced that it is impracticable to assess special grants on the basis of disabilities arising from federation and from the operation of federal policy.... *We believe that our method of assessing grants on the basis of financial needs* has much to commend it.”<sup>205</sup> That report was vehement about the crucial need for such assistance within a federation: “If a federal system is to work effectively some equalizing adjustment such as we have attempted is required...Financial adjustment is a fundamental necessity in a federal system, and all federations are now being forced to recognize the need for some equalizing distribution of federal revenues.”<sup>206</sup> Although neither the Fifth nor the Sixth report would mention Canada, Australian diplomats had ensured that Canberra was well aware of Canada’s search for a viable method of establishing relative fiscal equity among the provinces.

The determination of fiscal need – however defined – would be the key. But there were problems to solve. As Angus explained: “Whether in a federal state regional inequalities of wealth were radically different from regional inequalities within a

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<sup>204</sup> Fifth Report (1938) of the Commonwealth Grants Commission, p. 41.

<sup>205</sup> Sixth Report (1938) of the Commonwealth Grants Commission, Applications made by the States of South Australia, Western Australia and Tasmania, for Financial Assistance in 1939-40 from the Commonwealth under Section 96 of the Constitution. (Canberra: L. F. Johnston, Commonwealth Government Printer, 1939) National Archives of Australia. Series CP211/2, Control Symbol 69/12, Barcode 250523, p. 10-11. My italics.

<sup>206</sup> Sixth Report (1938) of the Commonwealth Grants Commission, 78.

unitary state.”<sup>207</sup> He was not certain that they were. But he added cynically: “An attempt to compensate for regional disadvantages even if the local economy were barely viable seemed as inevitable politically as it was unsound economically.”<sup>208</sup> The Commissioners did, however, decide that the disabilities of federation could not be used as a justification for subsidies: “It was impossible to disentangle the comparative benefits and burdens of Confederation province by province so as to calculate why compensation should be paid by some and received by others.”<sup>209</sup>

They were groping for wisdom. But all commissioners knew that the state had to do something about inequality among people and governments. Using political scientist Smiley’s model, the state – in this case, Ottawa – was now a major funder of the activities of the provinces – and thus active within the lives of their citizens. Skelton captured that view in a letter to Dafoe: “It is no longer sufficient to set the scene and let the play go on; the state must now take a direct hand in the part of every individual actor.” Then he added a remark that some provinces might have viewed as a threat: “And whether there are lines enough to go round or not, the play must go on. This particular development in political philosophy has obviously the greatest importance to public finance and Dominion-provincial relations.”<sup>210</sup> He clearly assumed that Ottawa would direct the play.

But they were in a quandary. Wealthier provinces such as Ontario maintained that *they* were bearing the financial burden of Confederation. The poorer provinces

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<sup>207</sup> Angus, 282.

<sup>208</sup> Angus, 282.

<sup>209</sup> Angus, 284.

<sup>210</sup> Research Director Alexander Skelton to Commissioner John Dafoe, December 21, 1938. John W. Dafoe Fonds, University of Manitoba Archives, box 14, folder three, p. 2.

could barely educate their children or heal their sick. Such inferior social services could leave citizens at a disadvantage, unable to contribute their best to their society – or to compete with their fellow Canadians in the wealthier provinces. But how could Ottawa ever figure out a way to deal fairly with Quebec if it wanted to create new national social programs? How could the commissioners possibly redesign Confederation when the partners agreed on almost nothing? It appeared as though political stability was at stake – no matter what they did.

Perhaps worse, like Mackenzie King, the commissioners were beginning to have doubts about the controlling and centralizing views of their own staff – especially after an unsettling lunch with Skelton. They knew that Anglophone Secretary Skelton and his assistant director of research, economist John Deutsch, would write large portions of the report's initial draft. They admired both men. But they were troubled by their staff's Ottawa-centric approach - and their determination to promote Ottawa's clout within Confederation.

Commissioner MacKay would later note that Skelton had a close circle of advisors, starting with his father, the most powerful bureaucrat in Ottawa, O. D. Skelton, who was under-secretary of state for external affairs. Sandy Skelton could also reach out to Bank of Canada Governor Gordon Towers, Deputy Finance Minister W. C. Clark, and Queen's University economist W. A. Mackintosh, who was doing work for the Commission.<sup>211</sup> Those Ottawa Men had advocated stronger federal control over the provinces through a loan council before the Royal Commission was

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<sup>211</sup> R. A. MacKay, "Some Personal Reminiscences of the Rowell-Sirois Commission, July 26, 1963," R A. MacKay Fonds, Correspondence and Personal Reminiscences of the Rowell-Sirois Commission, LAC, MG30, Volume 10, pps. 1-2.

appointed. They had advised Skelton when he had drafted an outline of the research program in 1937. And they were still there, supporting Skelton whenever he needed advice.

The commissioners were afraid of being cut out of the loop. As Angus later remarked, Skelton and Deutsch “worked admirably together but not very easily with anyone else.”<sup>212</sup> Skelton had accompanied Newton Rowell when he visited all provincial governments at the outset of the Commission. He knew ministers and civil servants in all provincial capitals – and he was in “far closer contact” with the Ottawa elites than anyone except Newton Rowell.<sup>213</sup> And they had lost Rowell.

They were right to worry. After Rowell had his stroke, Skelton actually invited the four remaining commissioners to a meeting at Ottawa’s Roxborough Hotel with his legendary father Oscar, deputy finance minister Clark and himself. There, as Angus recalled, Skelton explained that the commissioners were “taking too much into their own hands.”<sup>214</sup> They should stick to their regional hearings – which Skelton viewed as “little more than a formality” – while the staff wrote the report. Angus remained calm and firm. The commissioners were not “a mere façade.”<sup>215</sup> They would do the

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<sup>212</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 308.

<sup>213</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 270.

<sup>214</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 271.

<sup>215</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 270.

job that they were asked to do. Not what Skelton wanted them to do. The younger Skelton later admitted, “that he had been a damn fool.”<sup>216</sup>

But he had done it. The commissioners took that unsettling lunch to heart. Thereafter, they were on their guard against any attempt by Skelton and Deutsch to impose their views on the report. Economist Angus strongly disputed what he called the “literary thesis” of Deutsch, who wanted the report to depict “an emasculated federal government surrounded by virile provinces.” With the support of his fellow commissioners, Angus rebutted that approach with his explanation of Ottawa’s philosophy during the 1920s: “Fashionable indolence and emasculation are not the same thing.”<sup>217</sup> But the commissioners still struggled to define fiscal need along with new roles for Ottawa and the provinces without upsetting that fine balance.

### **Australia and the Australian Star Witness**

The Australians had watched virtually every major Canadian move during those crucial years. On January 12, 1938, Trade Commissioner L. R. Macgregor had penned a ten-page memorandum on political conditions that itemized seventeen pivotal issues – and captured the complexities of Canadian federalism. Those issues included the upcoming opening of Parliament, which was expected to be so fractious that Macgregor highlighted Finance Minister Charles Dunning’s remark that “the

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<sup>216</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 271.

<sup>217</sup> Henry Angus to John Dafoe, February 23, 1940. University of Manitoba Archives, John Dafoe Fonds, Box 14, folder 2, p. 1.



very structure of Confederation is facing a crisis.”<sup>218</sup> The Australian trade commissioner went on to examine the Prairie Provinces, Albert’s Social Credit government, the tension between the federal government and the Ontario government, the alliance between Quebec Premier Maurice Duplessis and Ontario Premier Mitchell Hepburn, and the Dominion’s new push for a constitutional amendment to establish Unemployment Insurance.

Pivotaly, in Macgregor’s discussion of the Rowell-Sirois Royal Commission, he noted how Canada was wrestling with the structure of its federation – and the frequent references by witnesses to Australia. “There has been a frequent citing of Australian precedents, particularly in such matters as the setting up of the Australian Loan Council, various aspects of the Financial Rehabilitation Scheme, depreciation of currency, etc. There has been a good deal of public controversy as to results achieved or disabilities suffered in Canada under federation arising out of public evidence before the Royal Commission.”<sup>219</sup> As in Australia, the Depression had ensured that federations could no longer gloss over fiscal inequalities among their members when provincial obligations to their citizenry were so great. Finally, citing commissioner Dafoe’s address to the Canadian Club in Vancouver, Macgregor pulled out a pivotal excerpt: “The Canadian federation has stood the strain of time

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<sup>218</sup> Australian Trade Commissioner L. R. Macgregor to the Department of External Affairs Secretary, Memorandum on Political Conditions in Canada, January 12, 1938. National Archives of Australia. Canada – Internal Part I, Series number A981, Control Symbol CAN 21 Part 1, Barcode 173371. n. p. in file, p. 1.

<sup>219</sup> Analysis of the Union of New Brunswick Municipalities brief, 6-7.

better than the other federal systems of the English-speaking world, though it still has inherent weaknesses.”<sup>220</sup>

On March 21, 1938, in a wonderful example of cross-pollination, the Australian External Affairs Secretary told the Australian Trade Commissioner that the Commonwealth Grants Commission would be starting its annual hearings into states’ claims on April 11. Would there be “any objection to quotation at hearings from Canadian briefs and submissions forwarded by you?”<sup>221</sup> (In the end, there would be no reference to Canada in the Commission’s formal Fourth, Fifth or Sixth reports – but it is possible that the commissioners cited Canada during their questioning of state witnesses.)

The monitoring was relentless, especially on the issue of fiscal inequality. On May 19, 1938 Australian diplomats sent an American study on “The Administration of Canadian Conditional Grants,” which the Committee on Public Administration of the Social Science Research Council in Washington had published. That report by American political scientist Luella Gettys criticized the “relatively slight and ineffective degree of Dominion supervision and guidance exercised in connection with the administration of federally aided activities.” She added: “The idea that the Dominion might effectively provide administrative leadership...seems to have made little headway.”<sup>222</sup> Gettys did not grasp the degree

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<sup>220</sup> Analysis of the Union of New Brunswick Municipalities brief, 10.

<sup>221</sup> “Draft Cablegram To Australian Trade Commissioner, Canada” on March 21, 1938. The National Archives of Australia, Canada: Constitutional, Series number A981, Control symbol CAN 13, Part 2, Barcode 173360, p. 1.

<sup>222</sup> Luella Gettys, *The Administration of Canadian Conditional Grants* (Washington: Public Administration Service, 1938) Quotations are from the review in *The Annals of the American Academy of Political and Social Science*, November 1938, p. 324.

of fierce provincial autonomy in Canada – and the resistance to federal supervision. Still, the Australian diplomats assumed that the work “may prove of interest” to Canberra – given the hearings of the Royal Commission on Dominion-Provincial Relations.<sup>223</sup>

On June 9, 1938, they singled out Finance Minister Charles Dunning’s move to nationalize the Bank of Canada as a completely publicly owned institution.<sup>224</sup> (King’s government had already amended the Bank of Canada Act in 1936 to ensure majority federal ownership and a majority of federal directors in the board.)

A week later, they sent Dunning’s 56-page budget speech of June 16, 1938 to Canberra, drawing pen lines along the side of the document to emphasize Canada’s desire for bilateral trading relationships with the United States and the United Kingdom as well as with all countries of the British Commonwealth.<sup>225</sup> Dunning saw increased trade as the answer to Canada’s enduring economic pain. The Finance Minister also went out of his way to dismiss the “frequent controversy” about Australian cuts to the rate of interest on its outstanding bonds: The Australian rates were initially much higher than the Canadian rates in 1931; in 1938, the Australian rates remained higher than the Canadian rates – because Canada had followed “a

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<sup>223</sup> Australian Trade Commissioner L. R. Macgregor to the Secretary of the External Affairs Department, May 19, 1938. National Archives of Australia, Canada – Internal Part I, Series number A981, Control symbol CAN 21, Part I, Barcode 173371, n. p. in file, p. 1.

<sup>224</sup> “Extract from ‘Toronto Daily Star’, June 9, 1936, The National Archives of Australia, Canada – Internal Politics, Series A 981, Control symbol CAN 24 Part 1, Barcode 173375. n. p. in file. p. 1.

<sup>225</sup> Canada: Budget Speech delivered by Hon. Chas. A. Dunning, Minister of Finance, Member for Queens, Prince Edward Island in the House Of Commons, June 16, 1938. The National Archives of Australia, Canada – Internal Politics, Series A 981, Control symbol CAN 24 Part 1, Barcode 173375. 54-55.

different and more normal policy.”<sup>226</sup> The comparisons with Australia had clearly stung Dunning. What remains striking today, however, is his rejection of Keynesian economics:

The experience of several countries with expansionist policies during the last few years has proven that only a rise in the rate of new investment can provide a durable basis for an upswing in business activity. Attempts to stimulate consumption by government expenditure or by suddenly improving labour conditions have been tried on more than one occasion but in every case they have been found wanting...Under our system at least, Government expenditures cannot take the place of private enterprise, and I do not think that our people are prepared to accept the alternative system of regimentation under which all or practically all expenditures would be Government expenditures.<sup>227</sup>

The rejection of Keynes was not universal. But support for his theories was concentrated among the more junior members of the finance ministry and younger Canadian academics. None of them had enough power to change the minds of their departmental masters. A. F. W. Plumptre, who would become deputy finance minister in 1954, had studied under Keynes at Cambridge but, in the last half of the 1930s, he was a university lecturer and economic analyst. Robert Bryce, who had also studied under Keynes, would not become powerful within the ministry until wartime. And another Keynesian, W. A. Mackintosh, who did research for the Rowell-Sirois Commission, would later become special assistant to the deputy finance minister. But he would not join the department until 1939. It was only in

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<sup>226</sup> Canada: Budget Speech delivered by Hon. Chas. A. Dunning, Minister of Finance, Member for Queens, Prince Edward Island in the House Of Commons, June 16, 1938, pps. 12-13.

<sup>227</sup> Canada: Budget Speech delivered by Hon. Chas. A. Dunning, Minister of Finance, Member for Queens, Prince Edward Island in the House Of Commons, June 16, 1938, p. 8.

October 1942 that Mackintosh led a Finance Ministry delegation to consult with Keynes in Britain.<sup>228</sup>

The news from Ottawa to Canberra in those challenging times never stopped. On June 13, 1938, Assistant Australian Trade Commissioner R. R. Ellen noted that the Canadian Chamber of Commerce had told the Royal Commission that the Dominion should collect personal and corporate taxes – and establish “a loan council and a Grants Commission on the lines of the Australian plan.”<sup>229</sup> Canada was inching closer to the Australian ideals of equalization – although it would take almost twenty years and a different formula to implement it.

Meanwhile, what was perhaps the most influential Royal Commission meeting occurred on a warm sultry morning in Ottawa on August 8, 1938.<sup>230</sup> The commissioners knew that their Australian star witness was brilliant and eccentric. They knew most of his lifetime highlights: Cambridge mathematician, gold prospector, northern British Columbia lumberman and hunter, Solomon Islands explorer, political economist, expert seaman, rugby player, orchid cultivator, sheep farmer, martial arts teacher, fruit grower, Labour politician in the Tasmanian

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<sup>228</sup> Robert W. Dimand, “Comment: Expectations, Confidence and the Keynesian Revolution” in *The State of Interpretation of Keynes*, ed. John B. Davis. (New York: Springer Science + Business Media New York, 1994) p. 126.

<sup>229</sup> Assistant Australian Trade Commissioner R. R. Ellen to the Australian Department of External Affairs Secretary, June 13, 1938. The National Archives of Australia, Canada – Internal Politics, Series A 981, Control symbol CAN 24 Part 1, Barcode 173375. 54-55.

<sup>230</sup> I am indebted to Tasmanian Parliamentary Archivist Sarah Ravanat and to former Tasmanian Premier Michael Field, now Chancellor of the University of Tasmania, for assistance with the biographies of Giblin and his father, former Tasmanian Premier William Robert Giblin.

Assembly, decorated (Military Cross) war hero, former Tasmanian Statistician, and friend of John Maynard Keynes and the Bloomsbury Group.<sup>231</sup>

The commissioners also knew that this pioneering University of Melbourne economist was a member of the Australian Commonwealth Bank Board. More importantly, Giblin was one of the three founding members of the Commonwealth Grants Commission, which distributed money from the central government to the poorer Australian states.

The Canadians needed to know the secret to Giblin's success in bringing greater equity and stability to state finances after so many complaints and confrontations. Australia had seethed with grievances – and Giblin understood them and their danger to social cohesion. In 1933, it was Giblin who had devised the Grants Commission's so-called "fair" formula, which put more federal money into the coffers of the poorer state governments.

The Australian mechanism had worked – because the formula was really dependent on Gibson's meticulous calculations of fiscal need including "the degree of economy in administration, the scale of social services and the severity of taxation."<sup>232</sup> He had added suitable quirks: no poorer state could get more per capita than any richer state could raise, no matter what the so-called formula seemed to indicate. As well, the apolitical commission was almost above dissent.

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<sup>231</sup> As quoted from the *Daily Mirror*, September 24, 1962 in Michael Field, *Lyndhurst Falkiner Giblin, 1872-1951: Economist, Eccentric, and Hero*. Unpublished. (Hobart, Tasmania: Tasmanian Parliamentary Library, June 7, 1994), p. 17.

<sup>232</sup> "Special Grants in the Australian Federation," *The Bank of Nova Scotia Monthly Review*, May 1938. The National Archives of Australia, Canada – Internal Politics, Series A 981, Control symbol CAN 24 Part 1, Barcode 173375. p. 4. I am also grateful to Bank of Nova Scotia Archivist Andrea McCutcheon for confirming this report – and supplying other monthly reviews.

It was a satisfactory statistical and politically adept approach to inequality – in Australia. The poorer states were mollified: They had enough money to make a visible difference, which quelled the incipient secessionists in Western Australia. The richer states were satisfied: The amounts were not high enough to encourage the dreaded twin problems of dependency and wasteful expenditures. And the CGC had the power to chide states – indeed, penalize them – for “past culpability as reflected in losses on loan expenditure.”<sup>233</sup> Citizens in richer states did not object to *their* federal taxes subsidizing governments of poorer states.

Indeed, the CGC was a nation-building endeavor that promoted social cohesion among states and their citizenry. The commissioners were fascinated. As Angus later observed: “Canada was a profoundly discontented country, every region of which was obsessed with a sense of injustice and a sense of self-pity.”<sup>234</sup>

And now, after the loss of their chairman, the commissioners and their staff had found a rare highlight. As R. A. MacKay would write enthusiastically to his wife Kathleen on August 9, “the dean of Australian economists.... had a lot of interesting information and ideas.”<sup>235</sup> Decades later, in writing a brief unpublished memoir about the commission, MacKay would observe that the hearings had generated vast amounts of data. “But they [the hearings] were on the whole not very useful in suggesting remedies,” he recalled. “One important exception was the evidence of

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<sup>233</sup> H. P. Brown, “Giblin and the Grants Commission” in *Giblin: The Scholar and the Man*, ed. Douglas Copland. ed. Douglas Copland. (Melbourne: F. W. Cheshire, 1961) p.55.

<sup>234</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 274.

<sup>235</sup> Royal Commissioner R. A. MacKay to Kathleen MacKay, August 9, 1938. LAC, Sirois Commission, MG 30, Series E159, Vol 10. p. 1.

Giblin, the Australian economist said to be the father of the Australian Grants Commission.”<sup>236</sup> The commission’s former legal secretary, Robert Fowler, would dispute MacKay’s dismissal of other witnesses: “The provincial government[s] had real views to give.”<sup>237</sup>

But Giblin was entrancing – and frank. The Australian states did differ among themselves in political outlook and social standards and, especially, in economic strength. But it was possible, within the existing Australian constitution, to make financial adjustments “without great difficulty which will enable the machinery of federated governments to work efficiently.”<sup>238</sup> That is, the central government could shuffle revenues among the states without huge opposition.

Canada was *very* dissimilar. There were marked differences “in political ideals and, what is more serious, in political responsibility” among the regions.<sup>239</sup> Worse, some provinces spent twice as much per capita as other provinces whereas the gap among the Australian states was no more than twenty per cent. The variance was

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<sup>236</sup> “Some Personal Reminiscences of the Rowell-Sirois Commission,” July 26, 1963, Correspondence and Personal Reminiscences of R. A. MacKay, LAC, MG 30, Vol. 10, Series E 159. p. 2.

<sup>237</sup> Former legal secretary R. M. Fowler to former commissioner R. A. MacKay, August 6, 1963. Correspondence and Personal Reminiscences of R. A. MacKay, LAC, MG 30, Vol. 10, Series E 159. p. 3.

<sup>238</sup> Royal Commission on Dominion-Provincial Relations, Transcripts of Public Hearings, 1937-38, Testimony of August 8, 1938 (Ottawa: LAC, RG 33/23, Volume 16-30). p. 2.

<sup>239</sup> Royal Commission on Dominion-Provincial Relations, Transcripts of Public Hearings, 1937-38, Testimony of August 8, 1938, 2.



too great: "These transfers would be too large to be regarded as reasonable, and the conclusion would be, 'Why not be one country at once and have done with it?'"<sup>240</sup>

Those discouraging words did not deter the commissioners – if only because they did not dare to advocate a unitary state. Angus asked if there was any economically sound way to compensate for regional differences – if only because such action appeared to be politically inevitable. He had become convinced that inequality was the nation's most serious dilemma. As he would later tell Dafoe, one section of their report should end with the statement that "the great problem before the nation (as at August [1939] last, of course) is how to obtain an adequate national income, and ensure its proper distribution."<sup>241</sup>

Legal Secretary Robert Fowler pointed out to Giblin that the Australian states had more responsibility for services than the Canadian provinces – which might be one reason why the CGC grants were comparatively large. Also, the scale of the Canadian subsidies was currently "very much lower than the scale in Australia." So there was "the possibility in Australia of taking up considerably more of the difference between the highest and the lowest."<sup>242</sup> The implication was that Canadian grants did not have to be as proportionately large as the Australian ones to bring social cohesion and political stability to the federation.

Dafoe put their quandary bluntly: Ottawa could vary the size of its subsidies to take account of provincial needs or it could take over more provincial

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<sup>240</sup> Royal Commission on Dominion-Provincial Relations, Transcripts of Public Hearings, 1937-38, Testimony of August 8, 1938 (Ottawa: LAC, RG 33/23, Volume 16-30). p. 8.

<sup>241</sup> Henry Angus to John Dafoe, March 27, 1940. University of Manitoba Archives, John Dafoe Fonds, Box 14, folder 2, p. 1.

<sup>242</sup>, pps. 8-9.

responsibilities? Yes, said Giblin. “You must take one road or the other,” observed Dafoe.<sup>243</sup> Yes, said Giblin, but the subsidies would still have to be “very much larger than at present, though not so large as my figures suggest, in view of Mr. Fowler’s point, that the actual functions of the provinces are not so great as in Australia.”<sup>244</sup> So there it was. But it would take almost two decades, and dangerous journeys on both roads, before wisdom would be found.

### **Writing The Report**

After Skelton’s rash bid to control the report, the commissioners took steps to ensure that his strong views would not dominate theirs. During the winter of 1938-1939, they “met daily to consider drafts prepared by our secretariat and to go over them line by line and sometimes word by word.”<sup>245</sup> Angus shared a room at the Roxborough Hotel with Mackay. Then MacKay spent the hot summer of 1939 in Ottawa, revising and editing, as the nation slipped toward war. It was perhaps a mark of how strongly most Commissioners now felt about inequality that, just before King George VI and Queen Elizabeth visited Ottawa in May 1939, MacKay told his spouse Kathleen that:

a group of single unemployed men.... had been turned out of shelter because appropriation had come to an end, and who insisted on interviewing the mayor and the govt., and parading with placards such as ‘We are Canada’s lost generation.’ ‘We

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<sup>243</sup> Royal Commission on Dominion-Provincial Relations, Transcripts of Public Hearings, 1937-38, Testimony of August 8, 1938 (Ottawa: LAC, RG 33/23, Volume 16-30). p. 9.

<sup>244</sup> Royal Commission on Dominion-Provincial Relations, Transcripts of Public Hearings, 1937-38, Testimony of August 8, 1938, 9.

<sup>245</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 282.

fought for king and country and now we starve.' And so on. It's significant that the unveiling of the [new war] memorial is a morning-dress-top-hat affair.<sup>246</sup>

Dafoe and Sirois would appear frequently for consultations. In the end, Dafoe's centralist impulses came through – more than even King expected. In his view, Canada was not a compact among the provinces. It was not an agreement between two nations: Quebec with its distinct identity and the Rest of Canada. Instead, Dafoe saw only one country. That vision could be difficult on occasion – and oddly limiting. As his fellow commissioner Angus would later note, the “Winnipeg Liberals” wanted to impose sanctions on Germany during the dark days before the Munich agreement to carve up Czechoslovakia in September 1938. “Mackenzie King with his solicitude for Canadian unity would never threaten war to avoid war,” Angus mused. But the Winnipeg Liberals would have done so “and would have assumed that Canadian unity was not worth preserving if it could not stand the strain.”<sup>247</sup>

Dafoe *tried* to control his preconceived notions. “[He] never called his opinions by the foolish adjective ‘unalterable’,” recalled Angus. “He had a journalist's acceptance of hard facts – a sort of retroactive tolerance that can be a most valuable political quality.”<sup>248</sup> But Dafoe had already talked about the establishment of “certain minimum standards” for provinces and people before the hearings even

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<sup>246</sup> Commissioner R. A. MacKay to Kathleen MacKay, May 14, 1939. Royal Commissioner R. A. MacKay to Kathleen MacKay, August 9, 1938. LAC, Sirois Commission, MG 30, Series E159, Vol 10. p. 1.

<sup>247</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 265.

<sup>248</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 266.

commenced.<sup>249</sup> In the end, the Winnipeg editor helped to convince his fellow commissioners – to King’s dismay – that the survival of the nation depended on reclaiming a strong role for Ottawa within the federation.

Along the way, the three anglophone commissioners also came to have “unlimited confidence” in Sirois, partly because he “never represented Quebec as being irreconcilable.”<sup>250</sup> He listened to his colleagues. When the commissioners were finalizing their report, Sirois considered writing a minority opinion – because he wanted to preserve the provinces’ right to impose income taxes and, especially, succession duties.<sup>251</sup> After prolonged discussions with Francophone Counsel St. Laurent and Anglophone Counsel Stewart, however, Sirois conceded that only a national government could effectively aid “Canadians in need in every part of the country.”<sup>252</sup> (The commissioners also believed that Sirois changed his confessor for someone “who assured him that he could safely follow his conscience in constitutional and financial matters.”)<sup>253</sup>

It was a pivotal moment: Sirois concluded that the centralization of key tax revenues would empower the provinces, particularly Quebec, to fulfill their

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<sup>249</sup> As quoted from a letter from John Dafoe to commission research director Alex Skelton on August 27, 1937 in Ramsay Cook, *The Politics of John W. Dafoe and the Free Press*. (Toronto: University of Toronto Press, 1963) 225.

<sup>250</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 267.

<sup>251</sup> Letter from R. M. Fowler to R. A. MacKay, August 6, 1963, Correspondence and Personal Reminiscences of R. A. MacKay, LAC, MG 30, Vol. 10, Series E 159. p. 4.

<sup>252</sup> Dale C. Thomson, *Louis St. Laurent: Canadian*. p. 102.

<sup>253</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 283. Angus attributes the story to the commission’s Francophone Secretary Adjutor Savard. Letter from R. A. MacKay to R. M. Fowler, August 9, 1963. Correspondence and Personal Reminiscences of R. A. MacKay, LAC, MG 30, Vol. 10, Series E 159. p. 1.

responsibilities. Thereafter, he never wavered from his defence of federal Unemployment Insurance and centralized tax collection – because that would allow Canadians to share with one another.

But Sirois also fiercely defended Quebec's rights. He presciently argued that "Quebec must never stand in the way of the other provinces doing as they wished but should be free to stand out."<sup>254</sup> In turn, his colleagues listened to him. In early January of 1940, Angus reported to the ailing Dafoe that a recent meeting in Ottawa with the secretariat had been "exasperating" – because the commissioners had bogged down in changing phrases that Sirois viewed as open to attack from Quebec. Angus felt that it "was futile to attempt to eliminate every vulnerable phrase." But then he captured the admiration that Sirois had inspired: "I feel that Dr. S. has gone so much further than we ever thought possible that one should do something to meet his wishes."<sup>255</sup>

The commissioners also took delight in Sirois's dry humour and succinct summaries. After a formal dinner at King's residence, the Prime Minister took Sirois aside for long-winded remarks about the timing of the report and the timing of the federal election, which was held in late March of 1940. As Angus recalled:

His [King's] long tortuous statement was followed by a gruff voice with something of a French accent. 'If I understand you correctly, Mr. Prime Minister, you want us to report not too soon and not too late.' Mr. King was a bit taken aback by this paraphrase of his

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<sup>254</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 267.

<sup>255</sup> H.F. Angus to John Dafoe, January 3, 1940. University of Manitoba Archives, John Dafoe Fonds, Box 14, Folder 2. p. 1.

carefully chosen words and, with at least an appearance of embarrassment said, 'Yes, yes, quite so.'<sup>256</sup>

His turn-of-phrase could be deft. As the report finally neared publication, Sirois summarized the approaches of his three fellow commissioners – and himself: “We are prepared to *explain* our Report, but not *defend* it, nor *apologize* for it.”<sup>257</sup>

### **The Failure of the Final Report**

The report would appear in May 1940 as the Nazis rolled through the Low Countries, heading toward the Channel ports. (I will examine its reception further in Chapter Four.) Four months later, King appointed Sirois as chairman of Ottawa’s new Unemployment Insurance Commission. It was the PM’s mark of respect for the commissioner’s brave stand. But the 61-year-old Sirois did not live long enough to take up his duties: He died of what was probably congestive heart failure in a Quebec City hospital in mid-January of 1941. His fellow commissioner Henry Angus, who was fluently bilingual, understood why the Rowell-Sirois report did not figure prominently in the Quebec tributes to him. “The Commission service was only a very small (and not well understood) part of Dr. Sirois’s life,” he explained to MacKay, who attended the service.<sup>258</sup> Angus later remarked: “In his way Dr. Sirois was as

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<sup>256</sup> Unpublished Biography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 268.

<sup>257</sup> Joseph Sirois to his three fellow commissioners, H. F. Angus, J. W. Dafoe and R.A. MacKay, April 26, 1940. University of Manitoba Archives, John Dafoe Fonds, Box 14, folder 2, p. 1.

<sup>258</sup> H. F. Angus to R.A. MacKay, January 28, 1941. LAC, MG30, Series E159, Volume 8. p. 1.

good a Canadian as [commissioner John] Dafoe with perhaps a greater appreciation of the difficulties of unity.”<sup>259</sup>

Angus would remember the commission with great fondness – although he had few delusions about Mackenzie King’s response. How would the timid and compromising federalist King react to its call for the centralized collection of key tax revenues – and Ottawa’s assumption of provincial debts? What about the commission’s call for grants to the poorer provinces that would allow them to fulfill their responsibilities? Angus knew that those recommendations would be political dynamite. As the report neared publication, Angus mused to Dafoe: “Someday I should like to hear what the P.M. really thinks of it.”<sup>260</sup> That would never occur.

The Commissioners stood by their conclusions throughout their lifetimes. On January 9, 1944, John Dafoe would die suddenly in Winnipeg: “Dafoe said he was willing to live to be a hundred – but no more – and he quite evidently expected to achieve this age.”<sup>261</sup> Both Angus and MacKay worked together at the External Affairs Department in Ottawa during wartime. MacKay retained his fascination with foreign policy: he was Ottawa’s permanent representative at the United Nations when the federal government finally figured out how to share through equalization payments in the mid-1950s. He eventually returned to teaching at Carleton University – and he died in Ottawa in 1979. Angus also lived to see the solution to Ottawa’s equalization

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<sup>259</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 267.

<sup>260</sup> Henry Angus to John Dafoe, February 21, 1940. University of Manitoba Archives, John Dafoe Fonds, Box 14, folder 2, p. 1.

<sup>261</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 264.

dilemma – just after he had retired as the first dean of graduate studies at the University of British Columbia. (A building on the UBC campus is named in his honour.) He lived to celebrate his one-hundredth birthday in 1991.

## Conclusion

Almost lost amid the fog of war, burdened with Mackenzie King's quiet opprobrium, the report would somehow endure as a thorough and fascinating formula to remedy the inequalities that could have torn Canada apart. It enunciated the daring notion that modern federations could not tolerate inequalities among member states if they wanted to survive. But, oddly, as discussed in Chapter Four, it was not daring enough.

Journalists had dubbed the commissioners as "The Fathers of Re-Confederation."<sup>262</sup> But, although they produced a *theoretically* coherent plan for the redesign of a federation, it could not work in Canada's messy political reality. The Liberal Government had asked them to examine the equity and efficiency of public expenditures and the taxation system within the federation.<sup>263</sup> The commissioners concluded that responsibilities and revenue-raising capacities were unequally distributed between the federal and provincial governments; they also found that the burden of taxation fell unequally on different taxpayers in different provinces.<sup>264</sup>

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<sup>262</sup> "Wide Revision of Canada's Fiscal Structure Advocated" in *The Gazette*, Friday, May 17, 1940. p. 12. The National Archives of Australia, Canada Constitution, Series A 981, Control symbol CAN 13 Part 1, Barcode 173359. n.p.

<sup>263</sup> Terms of Reference in Report of the Royal Commission on Dominion-Provincial Relations, Books I, II and III in one volume. (Ottawa: Edmond Cloutier, Queen's Printer and Controller of Stationery, 1954) p. 10.

<sup>264</sup> Terms of Reference, Book II, pps. 15, 150.



But, as I will show, the Commission's redesign of revenues and responsibilities within the federation – in the name of the equity and efficiency that Ottawa *specifically* demanded – proved to be unfeasible. The centralizers could never prevail for long in the precarious Canadian federation.

## **CHAPTER FOUR: Provincial Rights Versus Social Rights In War and Peace, 1940-1946**

In mid-May 1940, Canadians were distraught. The nation was at war with Germany – for the second time in twenty-five years. The news from abroad was ominous. On April 9, the Nazis had invaded Norway and Denmark – and handily defeated the British Territorial Brigade. Now, on May 10, the Nazis launched their Blitzkrieg against the Netherlands, Belgium and France, starting the encirclement of the Allied armies that would push them toward the Channel ports. On that same day, British Prime Minister Neville Chamberlain resigned – and Sir Winston Churchill replaced him. In Ottawa, Prime Minister Mackenzie King cabled Chamberlain – and telephoned Churchill. Then he met with Royal Commission Chairman Joseph Sirois, Anglophone Secretary Alex Skelton (“Skelton’s son”), and Francophone Secretary Adjutor Savard, who presented him with a specially bound copy of their massive report. The ceremony was brief, and almost cursory.

The Prime Minister was distracted. He toddled off to a press conference, where he explained that he had just received the report – and then he raised the possibility of making it public on Monday, May 13<sup>th</sup> or Thursday, May 16<sup>th</sup>. The journalists agreed on the Thursday as the release date, when the report would also be presented to Parliament. They asked for immediate copies, which they pledged not to publicize. Subsequent news reports explained that King had delayed the report’s release for three days “because of the new crisis in Europe.”<sup>1</sup> That was true.

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<sup>1</sup> “Report To Wait Until Thursday,” *The Globe and Mail*, May 11, 1940. 5.

Six days later, King tabled the Royal Commission report with a perfunctory flourish. Then he did nothing about it for weeks – until he could no longer avoid its implications. The Royal Commission on Dominion-Provincial Relations – with its “three principal volumes of more than two hundred pages each, together with twenty-nine additional volumes of appendices and other data, a total of thirty-two crimson-covered quarto volumes containing some 3,855 pages, with an attractive format and plenty of statistics, though without graphs and maps” – was seemingly forgotten.<sup>2</sup>

But appearances were deceptive. Behind the scenes, many Canadians – and many Australians – were drawn to the report as a possible remedy for the divisiveness of federalism. The report’s key recommendations constituted a remarkably coherent blueprint for how a 20<sup>th</sup> century federation could work to ensure relative equality and social cohesion among its members. *Theoretically*. As political scientist Peter Leslie notes, “The report is a useful reference point because of the comprehensiveness and the internal coherence of its recommendations.”<sup>3</sup>

It was in the real political world that the troubles with the report’s approach soon became evident. The commission proposed that the Dominion centralize revenues, take over provincial debts and assume responsibility for unemployed employables and Old-Age Pensions. And, most important but much overlooked at

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<sup>2</sup> “Canadian Federalism In Transition,” by Albert Lepawsky, Public Administration Review, autumn 1940, The Journal of The American Society for Public Administration, article filed November 1, 1940 in Secretary’s fonds, Bank of Canada Archives, File 291. p. 9.

<sup>3</sup> Peter M. Leslie, *National Citizenship and Provincial Communities: A Review of Canadian Fiscal Federalism* (Kingston, On.: Institute of Intergovernmental Relations, Queen’s University, 1988) p. 13.

the time, provinces would receive “lump sum, annual, unconditional National Adjustment Grants for the support of education and welfare at an average national standard.”<sup>4</sup>

This recommendation would eventually provide one of the main theoretical foundations for equalization – albeit with a far different formula – even though the Royal Commission’s larger blueprint for federalism would be abandoned. As I will show, that proposal for adjustment grants would be radically overhauled in the different world of federal-provincial relations that would prevail only seventeen years later. But the idea that poorer provinces should be able to provide social services that were roughly comparable to those in richer provinces with the *right* to extra federal funds was an enormous breakthrough.

The Royal Commission had finally jettisoned the fiction that each province was theoretically equal to its fellow provinces. That conceptual breakthrough would eventually allow Ottawa and the provinces to work together to expand the nation-state – and the rights of social citizenship. As historian James Struthers has observed: “It was this call for a redistribution of the nation’s wealth and the establishment of national standards in social services that earned Rowell-Sirois its reputation as a blueprint for the Canadian welfare state.”<sup>5</sup>

Indeed, the Rowell-Sirois report was the vital first step toward the adoption of those national programs. As political scientist Douglas M. Brown observes, “In many modern federal systems (e.g. the United States of America, Australia, Switzerland

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<sup>4</sup> Canadian Federalism In Transition,” by Albert Lepawsky, in *Public Administration Review*, 1.

<sup>5</sup> James Struthers, *No Fault of Their Own: Unemployment and the Canadian Welfare State 1914-1941* (Toronto: University of Toronto Press, 1983) 205.

and Canada) the basic constitutional design [of some form of equalization] preceded the development of the expanded role of government implied in the “welfare state” and its attendant expenditure requirements.”<sup>6</sup> The report mattered enormously in Canada – even though it was not wholeheartedly adopted as its authors hoped.

This chapter will first look at the frustrations leading up to the report’s publication. Then it will examine how the report percolated throughout the federation from the dark day that it was tabled in May 1940 into the immediate post-war era. Abroad, it fascinated the Australian diplomats and politicians, who would pore over its proposals and its reception. At home, it became an underground sensation. As historian and political theorist Frank Underhill, one of the founders of the CCF, observed in late 1940 in wonderment: The report “has been out of print since early last summer...This is something that never happened to any book of any contemporary Canadian professor, and is encouraging.”<sup>7</sup>

The report was the basis for a Dominion-Provincial Conference in 1941 – at which Ontario, British Columbia and Alberta vehemently resisted any permanent loss of their revenues. Wealthy Ontario particularly resented the sharing of its residents’ federal taxes with the poorer provinces through National Adjustment Grants. Later, the report became a factor – that was largely ignored – in the follow-up Post-War Conference that would stretch through 1945 into mid-1946. By then, many advocates of expanded social security, who had developed increasing clout, had grasped its vision of funds for expanded provincial social services. A few even

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<sup>6</sup> Douglas M. Brown, *Equalization On The Basis Of Need In Canada* (Kingston: Institute of Intergovernmental Relations: Queen’s University, 1996) p. 2.

<sup>7</sup> Frank H. Underhill, “The Sirois Commission as Historians” in *The Sirois Report – A Discussion of Some Aspects*, *The Canadian Forum*, November 1940. p. 233.

understood its caveat that all provinces should be able to afford those services. But the report was overshadowed – because Prime Mackenzie King had also tabled an expansive Green Paper blueprint for social reform. It, too, would not succeed.

### **The Delay in Publication of the Royal Commission Report**

It was a small miracle that the Royal Commission report had even appeared amid the disruptions of war. Since September 10, 1939, when Canada had declared war on Germany, the federal government had become almost single-minded: Little else mattered – except the war effort, at home and abroad. Royal Commissioner R. A. MacKay captured the capital with a cynical eye in a letter to his wife Kathleen on October 14, 1939: “There is an air of suppressed excitement and purposeful activity everywhere. What a pity we could not have shown the same activity and enthusiasm for getting rid of unemployment, or finding decent housing, or suppressing diseases and social evils.”<sup>8</sup> The hearings had deeply affected him.

Amid this climate – which seemed strikingly at odds with the Commission’s search for fiscal harmony – the members had worried about how Canadians would regard their report. Legal secretary Robert Fowler told commissioner John W. Dafoe that he had “turned over many of the points in my mind and I believe nearly all the conclusions are strengthened rather than weakened by the advent of war.”<sup>9</sup> Dafoe agreed: “The impact of war upon our economy will be to strengthen the view that

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<sup>8</sup> Royal Commissioner R. A. MacKay to his spouse Kathleen MacKay, October 14, 1939, Sirois Commission. Personal letters: MacKay to his wife Kathleen 1939-40. Library and Archives Canada, MG 30, Series E159, Volume 10. pps. 5-6.

<sup>9</sup> Commission legal secretary Robert Fowler to Commissioner John W. Dafoe, September 24, 1939. University of Manitoba Archives, John W. Dafoe Fonds, Box 14, Folder 2, p. 2.

*Canada has got to be a nation* in every sense of the word. If it has not this result, the disruption of Confederation is one of the possibilities of our participation in the war.”<sup>10</sup> Both men understood that they were engaged in a nation-building exercise amid a society in turmoil.

But time was slipping away on them. In January 1940, almost five months before the report’s debut, Ottawa anticipated a key recommendation: King espoused Unemployment Insurance as a federal initiative. In March, the Prime Minister persuaded the last reluctant premiers to buy into the scheme. On June 10, 1940, after agreements with every province, the Canadian Constitution was amended to grant responsibility for Unemployment Insurance to Ottawa. The subsequent Unemployment Insurance Act 1940 would be fast-tracked through both Houses of Parliament – and would receive Royal Assent on August 7, 1940.<sup>11</sup> It would take effect on July 1, 1941.

Such speed evoked the commissioners’ envy. They and their staff were still working on the report – and the accompanying research – into the eighth month of the war. In mid-December 1939, MacKay told Kathleen that Skelton and assistant research director J. J. Deutsch were behind schedule – and “it was probably impossible to herd them on.”<sup>12</sup> In early March, Skelton left with his powerful father

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<sup>10</sup> Commissioner John W. Dafoe to Commission legal secretary Robert Fowler, September 30, 1939. University of Manitoba Archives, John W. Dafoe Fonds, Box 14, Folder 1, p. 1. *My italics.*

<sup>11</sup> <http://www.pco-bcp.gc.ca/aia/index.asp?lang=eng&page=hist&sub=eip-pac&doc=eip-pac-eng.htm>

<sup>12</sup> Royal Commissioner R. A. MacKay to his spouse Kathleen MacKay, December 15, 1939. Sirois Commission, Personal letters: MacKay to his wife Kathleen 1939-40. LAC, MG 30, Series E159, Volume 10. pps. 5-6.

O. D. Skelton by rail to New York City, then on a ship to Havana and Vera Cruz, and then to Mexico City, where he planned to stay ten days. When Skelton airily informed Sirois of the trip, he was stunned: "Would I expose myself to an action in damages," Sirois wrote MacKay, "if I expressed to you my opinion that they are all gone crazy in Ottawa."<sup>13</sup> His colleagues were equally unsettled. "It would be charitable to assume," Dafoe wrote to Angus, "that Skelton père, going on a much-needed vacation, carried off Alex, but...I still feel a degree of exasperation over the mishaps and delays of the closing stages of the work of the Commission."<sup>14</sup>

Such delays disturbed everyone who had dedicated so much time to the report. Would this massive report still remain relevant? Bureaucrats in the Bank of Canada and the Finance Ministry wrestled with the topic constantly, finally convincing themselves that the report would survive amid the wartime news. On May 8, eight days before the Prime Minister tabled the report in Parliament, Bank of Canada Governor Graham Towers wrote to King's special assistant L. W. Brockington, emphasizing the report's importance as a remedy for efficiency *and* equity in wartime and peacetime:

The recommendations – whatever they may be – are of vital concern to every Canadian citizen.... With world conditions as they have been for many years – and as they may be post-war – the struggle for survival is so intense that countries cannot afford the handicap of bad organization. In periods of active development – such as the growing period of Canada from Confederation to 1914 – waste was apparently not a cause for great concern. There was

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<sup>13</sup> Royal Commission Chairman Joseph Sirois to Commissioner R. A. MacKay, March 5, 1940, Rowell Sirois Correspondence 1938-1940, MG30. Series E159, Volume 8. p. 1.

<sup>14</sup> Royal Commissioner John W. Dafoe to Royal Commissioner Henry F. Angus, March 29, 1940. University of Manitoba Archives, John W. Dafoe Fonds, Box 14, Folder 1, p. 1. My punctuation of pere.



enough and to spare. Existing difficulties – and, for the moment, I am not referring to the war – *and the much larger part played by governments in the lives of individuals*, have produced a situation where inefficient organization has a very definite effect on the standard of living of the people. The people must insist on efficient organization of our whole governmental setup – and if they don't, they are the ones who will suffer.<sup>15</sup>

Today we would refer to Towers' notes as "talking points" for Mackenzie King.

The conversations were agonizing. As Sandy Skelton later explained in a confidential memorandum:

The Commission decided, after deliberation, to complete the Report exactly as it would have been completed had War not been declared. Although it is true that the War is certain to produce great changes in the structure of the Canadian economy, it is equally true that the nature and extent of these changes, dependent as they are on the length and intensity of the struggle, cannot be predicted at the present time. The basic recommendations of the Commission concerning the re-allocation of the functions of government and the financial relations of the Dominion and the provinces were framed with the possibility of emergencies in mind and are, it is hoped, sufficiently flexible to be adjusted to any situation which the War may produce.<sup>16</sup>

Initially, such hopes were dashed. After the report's publication on May 16, the news from abroad only got worse. At home, the potentially blockbuster report was largely submerged amid the turbulence of war. With the exception of the first day of headlines, the Royal Commission report on Dominion-Provincial Relations was largely relegated to the back pages amid the Nazi advance. On May 20, Canada and

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<sup>15</sup> Bank of Canada Governor Graham Towers to L. W. Brockington, special assistant to Prime Minister Mackenzie King, May 8, 1940. Bank of Canada Archives, Royal Commission on Dominion-Provincial Relations, Secretary's Fonds. File 291-B95. p. 2. My italics.

<sup>16</sup> D.A. Skelton, "Sirois Report and the War," Confidential Memorandum of July 24, 1940. John James Deutsch papers, Queen's University Archives. Box 109, folder 1295.

Britain called for a day of prayer to ask for “strength and victory for the Empire and its Allies.”<sup>17</sup> The next day, the Nazis reached the English Channel.

One day later, remarkably, Ontario Premier Mitchell Hepburn charged that King had withheld publication of the report “for no other purpose in mind but to draw people’s attention away from [Canada’s] lack of war effort.”<sup>18</sup> If that was King’s intention – and it almost certainly was not – it did not work. But Hepburn’s attack sparked a proliferation of anti-King bumper stickers and posters, criticizing the federal war effort, across the nation.<sup>19</sup> The report was now embroiled in a highly politicized dialogue. On May 28, as Belgium surrendered, King told Senate Government Leader Raoul Dandurand “that not only Britain but France could be defeated in this war.” He added grimly that Dandurand “turned visibly white.”<sup>20</sup>

### **The Report Attracts Attention**

Despite those calamitous events, slowly, as the report percolated across the nation, it reached an audience. Academics, politicians and social advocates recognized its “daring and dramatic” presentation of “thorough research, keen analysis, skillful presentation, and masterful writing.”<sup>21</sup> There had been eighty-five

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<sup>17</sup> “Canada Sets Day for Prayer,” in *The Globe and Mail*, Monday, May 20, 1940. p. 17.

<sup>18</sup> “Hepburn Holds Sirois Report Is Red Herring,” *The Globe and Mail*, May 22, 1940, 5.

<sup>19</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*. (Toronto: University of Toronto Press, 1991) p. 450.

<sup>20</sup> Diary of Prime Minister William Lyon Mackenzie King, Tuesday, May 28, 1940. <http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=21703&>

<sup>21</sup> “Canadian Federalism In Transition,” by Albert Lepawsky, *Public Administration Review*, autumn 1940, The Journal of The American Society for Public

days of public hearings in ten cities with more than ten thousand pages of evidence, 154 briefs from municipal groups and public administration organizations, and many witnesses.<sup>22</sup> Too many people had an interest in its recommendations to tackle provincial inequalities in revenues and responsibilities – including the defenders of provincial rights, who were alarmed, and the advocates of expanded social security, who were intrigued – to let it slip away without serious consideration.

Some recommendations were quite radical. (Today, they would be extreme.) The report called for the centralization of all provincial revenues from personal and corporate income taxes as well as succession duties. Ottawa should assume responsibility for all current provincial debts. It should include all future provincial debts in any calculation of emergency aid – if the proposed advisory Dominion Finance Commission approved such provincial borrowing. (This proposal was clearly the non-compulsory version of a loan council that Skelton had first devised in 1936.)

The Dominion should assume responsibility for unemployment relief, Unemployment Insurance, old-age pensions, labour legislation, and advances to farmers and primary industries. There should be: regular Dominion-Provincial conferences, along with a secretariat to oversee federal-provincial machinery; and development grants for highway and conservation expenditures along with supplementary emergency grants in case of abnormal conditions.

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Administration, article filed November 1, 1940 in Secretary's fonds, Bank of Canada Archives, File 291. 9.

<sup>22</sup> Canadian Federalism In Transition," by Albert Lepawsky, *Public Administration Review*, 9.

### The Groundbreaking National Adjustment Grants

It was only belatedly that politicians and bureaucrats, along with other policy experts, considered the proposed National Adjustment Grants (NAG) to the poorer provinces to fund the provision of social services. Those nation-building grants were pivotal to the Commission's blueprint. They were a huge leap in the conception of Canadian federalism. As the report stressed: "They [the grants] are *a complete break from the traditional subsidy system* and the principles ostensibly underlying it.... *They are designed to make it possible for every province to provide for its people services of average Canadian standards* and they will thus alleviate distress and shameful conditions which now weaken national unity and handicap many Canadians."<sup>23</sup>

They represented a first version of equalization. As political scientist Peter Leslie observes: "In effect, but without saying so, the commission proposed that Canada adopt the centerpiece of fiscal federalism in Australia, adopted in 1933."<sup>24</sup> There were differences – largely because the size of the NAGs was pegged to provincial spending on *specific* programs. Poorer provinces and municipalities would receive funds for their joint per-capita spending on public welfare and education – "after adjustment in some cases for costs of living and other local circumstances" – in

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<sup>23</sup> Report of the Royal Commission on Dominion-Provincial Relations, Book II, Recommendations (Ottawa: Edmond Cloutier, Queen's Printer and Controller of Stationery, 1954) p. 125.

<sup>24</sup> Peter M. Leslie, *National Citizenship and Provincial Communities: A Review of Canadian Fiscal Federalism* (Kingston, On.: Institute of Intergovernmental Relations, Queen's University, 1988) p. 15.

comparison with the national average for spending on those programs.<sup>25</sup> The grants would also compensate poorer provinces for their annual average expenditures on highways, agriculture and public domain expenditures. That is, the grants would be tied to the amount of each province's spending in explicit areas.

There were more conditions. Recipients would have to tax their citizens at an average standard of severity. That would be measured as "the proportion of total provincial and municipal taxation to the total income of each province...compared with the national average."<sup>26</sup> The stipulation was a precaution: "No province would be penalized for having provided superior services if it had done so by having taxed its residents with more than average severity, and no province would receive a payment to enable it to improve inferior services if it had chosen to have inferior services in order to tax its residents less severely than the [national] average."<sup>27</sup> Provinces could not charge low taxes, provide inferior services, cry poor and pocket federal grants. The cost of future loans could only be included in the calculation of grants if the Dominion Finance Commission had approved the borrowing.

Theoretically, the provinces were free to spend the funds within any of those vaguely specified policy areas. But they would have to account to their voters for their choices. In effect, the commissioners cherished an optimistic dream of enticing the provinces to adopt better spending priorities. The very existence of federal

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<sup>25</sup> Royal Commission on Dominion-Provincial Relations, Book II: Recommendations (Ottawa: Edmund Cloutier, Queen's Printer and Controller of Stationery, 1954) p. 125.

<sup>26</sup> Royal Commission on Dominion-Provincial Relations, Book II: Recommendations, p. 125.

<sup>27</sup> Royal Commission on Dominion-Provincial Relations, Book II: Recommendations, p. 125.

grants based on fiscal need might prompt the provinces to explain their priorities to their voters, including their taxation levels. Provincial residents, for example, might see that federal grants were earmarked for frivolous purposes or completely devoted to road construction – along with the politically popular ribbon-cutting ceremonies to open those roads – while educational systems faltered. In an ideal world, those voters would then force change upon their politicians – or change them.

As the report emphasized in a crucial section:

It should be made clear that while the adjustment grant proposed is designed to enable a province to provide adequate services (at the average Canadian standard) without excessive taxation (on the average Canadian basis) the freedom of action of a province is in no way impaired. If a province chooses to provide inferior services and impose lower taxation it is free to do so, or it may provide better services than the average if its people are willing to be taxed accordingly, or it may, for example, starve its roads and improve its education, or starve its education and improve its roads – exactly as it may do today. But no provincial government will be free from the pressure of the opinion of its own people and if, when it applies for an increased adjustment grant on the basis of need, it has to produce figures which indicate that although it might, without specially heavy taxation, have provided better education but did not do so, it has, of course, to justify this to its own voters.<sup>28</sup>

The report defended the grants with the same argument that had convinced Commission Chairman Joseph Sirois to support them: “They illustrate the Commission’s conviction that provincial autonomy in these fields must be respected

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<sup>28</sup> Royal Commission on Dominion-Provincial Relations, Book II: Recommendations p. 84.

and strengthened, and that the only true independence is financial security.”<sup>29</sup> As well, as political scientist David Milne underlines, the commissioners argued that such equalization “should also be justified on moral grounds, as a question of decency and social justice in a country where federal economic policies in a national market economy necessarily ‘enrich’ provinces in some regions while it ‘impoverishes’ others...Although the commission was careful to dismiss the notion that the Dominion was directly responsible as such to a province for the adverse effects of federal policy on it, it nonetheless argued that Ottawa should support a province in fiscal need.”<sup>30</sup>

### **The Report’s Fatal Flaw**

Such daring concepts could be mesmerizing. More than 800 orders for the massive report were placed within three months.<sup>31</sup> But the first serious qualms about its approach appeared soon after its publication. At least one commissioner, economist Angus, had expected them. He understood that the replacement of subsidies with adjustment grants would open deep divides between the “Have” and the “Have Not” provinces. As provincial politicians and bureaucrats did the

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<sup>29</sup> Royal Commission on Dominion-Provincial Relations, Book II: Recommendations (Ottawa: Edmund Cloutier, Queen’s Printer and Controller of Stationery, 1954) p. 125.

<sup>30</sup> David Milne, “Equalization And The Politics Of Restraint” in *Equalization: Its Contribution to Canada’s Economic and Fiscal Progress*, eds. Robin W. Boadway and Paul A. R. Hobson (Kingston: John Deutsch Institute For The Study Of Economic Policy, Queen’s University, 1997) p. 186.

<sup>31</sup> Australian High Commission Secretary Noël Deschamps to The Secretary, Department of External Affairs, August 2, 1940. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, p. 1.

arithmetic, they would come up with “a rather disconcerting result.” As he later explained in his unpublished autobiography:

At the outset every province except Ontario would benefit in the sense of receiving more in benefits than it gave up in revenues. Ontario could complain – and did – that a Commission on which Ontario had no representation made the recommendations. A more serious shortcoming was that the recommendations took no account of the need for developmental expenditures and did not face the issue of whether these should be made by the federal government where the return would be greatest or where the need for greater income was most intense.<sup>32</sup>

Angus had “tried hard” to convince his colleagues that the report should emphasize that:

initially the major (possibly the entire) burden would fall on Ontario and that all other provinces (with the possible exception of British Columbia) would be beneficiaries. Anyone with a sharp pencil could calculate this result in a few minutes and I thought the Commission should avoid the danger of being accused of concealing it.... the risk was that opposition could be aroused in Ontario for what would appear a large financial benefit to Quebec at the expense of Ontario.<sup>33</sup>

Angus was prescient: The Commission report tilted away from the proper balance among the federation partners – and perilous results ensued. The Royal Commission’s vision could not work. Its nation-building blueprint envisioned permanent centralization of key revenues – with far too little grasp of the importance of provincial autonomy over those revenues and provincial identities of language and culture.

Perhaps more importantly, I maintain that the report’s authors did not understand that generosity has to have clear limits or social cohesion frays: the

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<sup>32</sup> Unpublished Autobiography of Henry Angus, Chapter 7, LAC. MG30, Series E274, Vol. 1, p. 287. Once Rowell left, of course, Ontario had no representation.

<sup>33</sup> Unpublished Autobiography of Henry Angus.



grants pegged to average social and infrastructure spending were simply too open-ended. The wealthier provincial governments proclaimed the lesson loudly at Dominion-Provincial conferences over the next fifteen years: they needed *their* taxpayers' money for their own government needs – and they fostered voter resentment against what they perceived as unduly generous federal efforts to spend tax revenues on their poorer kin.

Sharing is difficult. Done properly with a neutral fiscal mechanism that balances the needs of the participants in the bargain, sharing among governments fosters social cohesion and political stability. Done improperly, without respect for the boundaries of the donors or the bottom-line needs of the recipients, equalization can be a huge strain on federal-provincial relations. Equalization only became possible when Ottawa hit upon a neutral formula of non-conditional grants that provided that balance, and won the very grudging consent of the rich and the poor provinces. Even then, as I will show in Chapter Five, the Maritimes objected to the lack of generosity – while the rich Conservative government of Ontario turned against the federal Liberals for their excessive generosity to the poorer governments.

All governments are actors – and there was too much discord on the political stage between the Have and the Have-Not provinces in wartime. The idealism of the Royal Commission report – which inspired so many individual Canadians – came up against the practical realities of Canadian federalism: ironically, the report could not find a way to implement the concept of equalization as a tool for social cohesion without threatening national unity.

### **Australia Keeps Watch**

The Australians did not yet have the same pressure on their doorstep that Canada now experienced with U-Boats in the Atlantic – and the Nazis in control of mainland Europe. (Australian troops were only brought home from the Mediterranean and the Middle East in early 1942 as the Japanese swept through Southeast Asia.)

But every step of the way, throughout the war and into peacetime, they watched their sister Dominion. On the cusp of summer in 1940, the new High Commissioner Sir William Glasgow noted: “‘Hitler weather’ appears to have reached Ottawa from across the Atlantic in the past few days and the brilliant sunshine seems to mock the gloom which assails us and to heighten the sense of futility which at times threatens us.”<sup>34</sup> In a separate memo, Glasgow, who had attained the rank of Major-General in World War One, outlined the mobilization of manpower and resources in Canada: “Canadian armed forces were now on duty in Newfoundland and the first contingent of a Canadian expeditionary force had already landed in Iceland for the purpose of maintaining the security of the North Atlantic sea lanes.”<sup>35</sup>

The most wrenching enclosure to Canberra was what was customarily the dreariest: Minister of Finance J. L. Ralston’s budget speech in late June 1940 “at the most critical hour in our history”: “The Hun is hammering at the gate... A new ‘Dark

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<sup>34</sup> Australian High Commissioner to Canada T. W. Glasgow to External Affairs Minister, Canberra. June 20, 1940. National Archives of Australia. Australian High Commissioner in Canada – Memoranda from. Series number A461, Control symbol D348/1/15, Barcode 1950707. p. 1. This is memo No. M. 9/ 40.

<sup>35</sup> This is a separate memo from Glasgow to the Australian External Affairs Minister – but it was also written on June 20, 1940. It is No. M. 10/ 40. p. 2

Ages' may not be the figment of a wild imagination."<sup>36</sup> Ralston offered an economic forecast that might "meet conditions probably more unforeseeable than those of any period in our history."<sup>37</sup> But, he added firmly, Canada would "fail neither the Commonwealth nor the cause."<sup>38</sup> Notably, the Finance Minister did *not* mention the Royal Commission report – or its implications for his bottom line.

But the Royal Commission report fascinated the Australians. They watched its reception as a remedy for political instability – especially in wartime. And they were not heartened by the ensuing rhetorical fracas. Throughout 1940, there were dozens of memos about the Commission report – back and forth, between Canberra and Ottawa. The Australians were absorbed in Canada's struggle to remake its federation. On May 14, 1940, two days before the report was officially tabled, the Australian External Affairs Secretary in Canberra wrote to the High Commission in Ottawa to ask for copies. On June 7<sup>th</sup>, the High Commission managed to procure one copy of the report – along with a three-page summary from the *Monetary Times* – for Canberra.<sup>39</sup> It also sent a four-page memorandum from High Commission Secretary Noël Deschamps, which parsed the report's history and its recommendations.<sup>40</sup> On

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<sup>36</sup> Budget Speech, Delivered by Honourable J. L. Ralston, Minister of Finance, Member for Prince, Prince Edward Island in the House Of Commons, Monday, June 24, 1940. Canada: Economic & Financial, National Archives of Australia, Series number A981, Control symbol CAN 18 PART 2, Barcode 173367, p. 1.

<sup>37</sup> Budget Speech, Delivered by Honourable J. L. Ralston, Minister of Finance, 14.

<sup>38</sup> Budget Speech, Delivered by Honourable J. L. Ralston, Minister of Finance, 32.

<sup>39</sup> "Dominion-Provincial Relations," Extract From "Monetary Times 18-5-40. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, pps. 1-3.

<sup>40</sup> Memorandum to The Secretary, Department of External Affairs from Australian High Commission Secretary Noël Deschamps, June 7, 1940. Canada: Constitution,

June 20<sup>th</sup>, it sent a full set of the special studies. On July 18th, High Commission Secretary Deschamps ruefully told Canberra that the report “is out of print and will not be available for another six weeks.”<sup>41</sup>

The Australians were impatient: They wanted nine copies for distribution.<sup>42</sup> In early August, Deschamps wearily explained that the three volumes of the report itself were out of print – and there had been no authorization for reprinting “in spite of the fact that 800 orders for the Report have been received.”<sup>43</sup> By late August, “as a result of pressure on the Prime Minister’s [King’s] Office,” four copies were secured – and forwarded to Canberra.<sup>44</sup> In mid-November, Deschamps finally obtained five more copies – “only now made available by the King’s Printer.”<sup>45</sup> The report was an improbable hit in Australia.

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National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, pps. 1-4.

<sup>41</sup> Australian High Commission Secretary Noël Deschamps to The Secretary, Department of External Affairs, July 18, 1940. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, p. 1.

<sup>42</sup> Draft Telegram To High Commissioner, Ottawa from External, August 8, 1940. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, p. 1.

<sup>43</sup> Australian High Commission Secretary Noël Deschamps to The Secretary, Department of External Affairs, August 2, 1940. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, p. 1.

<sup>44</sup> Australian High Commission Secretary Noël Deschamps to The Secretary, Department of External Affairs, August 28, 1940. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, p. 1.

<sup>45</sup> Australian High Commission Secretary Noël Deschamps to The Secretary, Department of External Affairs, November 14, 1940. Canada: Constitution, National Archives of Australia, Series number A981, Control symbol CAN 13 PART 1, Barcode 173359, p. 1.

## Interest Grows At Home

The report was also building traction within Canada. In September 1940, the Canadian Institute of International Affairs published a 15,000-word summary of the report, which would go into four printings by January 1941. The authors – Dalhousie University historian S. A. Saunders and researcher Eleanor Back – also wrote a slightly smaller, rather disjointed pamphlet criticizing the report.<sup>46</sup> (Perhaps this was understandable: Secretary Alex Skelton had experienced great difficulties with the regional studies for the Commission – “very mixed nature and inferior quality” – and he and Saunders had clashed.)<sup>47</sup>

In November 1940, as I have mentioned in Chapter Three, *The Canadian Forum* devoted seven pages to three essays on key aspects of the report, including Frank H. Underhill’s pivotal observation: “Incidentally, though there was not a single Marxian who got within miles of the commission’s deliberations save when Tim Buck appeared to present the Communist party brief, the whole report in almost every sentence, every paragraph, every volume, is a powerful exercise in the economic interpretation of history.”<sup>48</sup>

The avid analysis continued. In December 1940, the Bank of Nova Scotia’s *Monthly Review* devoted all four pages to a review of the report that reflected the anxieties of wartime and the economic pressures of maintaining troops at home and

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<sup>46</sup> S. A. Saunders and Eleanor Back, *The Rowell-Sirois Commission, Part I, A Summary of the Report and Part II, A Criticism of the Report*. (Toronto & Halifax: The Ryerson Press, September 1940) pps. 45 and 37.

<sup>47</sup> Commission Secretary Alex Skelton to Commissioner John W. Dafoe, June 23, 1938. University of Manitoba Archives, John W. Dafoe Fonds, Box 14, Folder 3, p. 1.

<sup>48</sup> Frank H. Underhill, “The Sirois Commission as Historians,” in *The Sirois Report – A Discussion of Some Aspects*, *The Canadian Forum*, November 1940. D. A. Skelton Fonds, Queen’s University Archives,

abroad. The commission's conclusions were "workable and suitable to the needs of the Canadian federation as we know them to-day... The alternative, indeed, appears to be – drift."<sup>49</sup> [Sic] As it was, the state of Dominion-Provincial relations was "undoubtedly conducive to friction and inefficient in Canadian economic life and may thus be regarded as hampering the war effort."<sup>50</sup> The National Adjustment Grants to remedy inequalities would "achieve and maintain financial balance in our federal system" through "greater stability in provincial expenditures."<sup>51</sup>

That same month, the Canadian Association for Adult Education and the Canadian Institute of International Affairs jointly published a slim booklet, "A Comment on the Rowell-Sirois Report." It was the work of the Commission's legal secretary, Toronto lawyer R. M. Fowler, who wanted to stress that the report's debut "may some day be regarded as a day equal to July 1<sup>st</sup>, 1867, in significance to Canadians."<sup>52</sup> Fowler was well aware of the continuing competition for attention: "As the German legions thundered into France, the news of battle almost succeeded in driving from the headlines of Canadian newspapers an event of supreme national importance."<sup>53</sup> He wanted to keep the report alive.

That was emphatically not the way that Mackenzie King saw the report: He initially wanted to postpone any consideration of it for the duration of the war. He

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<sup>49</sup> "The Rowell-Sirois Report: A Brief Survey of Its Financial Recommendations," *Monthly Review*, The Bank Of Nova Scotia, Toronto, December 1940, Vol. XIV, No. 12. p. 4. I am grateful to Bank of Nova Scotia Archivist Andrea McCutcheon for these reports.

<sup>50</sup> "The Rowell-Sirois Report: A Brief Survey of Its Financial Recommendations," 4.

<sup>51</sup> "The Rowell-Sirois Report: A Brief Survey of Its Financial Recommendations," 2.

<sup>52</sup> R. M. Fowler, *A Comment on the Rowell-Sirois Report* (Toronto: the Canadian Association for Adult Education and the Canadian Institute of International Affairs, December 1940).

<sup>53</sup> R. M. Fowler, 1.

was certainly not interested in the report's call for relatively equalized grants to the provinces in return for their key tax revenues. He wanted provincial tax revenues to prosecute the war, *not* to subsidize the poorer provincial governments. And he would never endanger national unity in wartime to accomplish the permanent constitutional change in revenues and responsibilities that the Commission recommended.

But – if only because of the allure of its remedies for financial inequality among the provinces – the report would not go away. In his unpublished PhD thesis, historian David Fransen depicts King as buffeted between two forces. On one side were many senior bureaucrats at the Bank of Canada and the Finance Ministry along with a few cabinet ministers. That group included including Bank of Canada Governor Graham Towers, former Rowell-Sirois research director Alex Skelton, who was now back at the Bank of Canada, Deputy Finance Minister Clifford Clark, Finance Ministry special advisor W. A. Mackintosh, Finance Minister J. L. Ilesley and Mines and Resources Minister T. A. Crerar.<sup>54</sup> Skelton's powerful father O. D. Skelton, who was Under Secretary of State for External Affairs, supported them.

They believed that the Depression had demonstrated “that too many hands at the levers of an economy with the regions as interrelated as were Canada's exacerbated the decline and retarded recovery.... It seemed unjust, as far as the mandarins were

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<sup>54</sup> David Fransen, “*Unscrewing The Unscrutable: The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-1941*.” Unpublished thesis. Department of History, University of Toronto, 1984. pps. 417.

concerned, that governments and individuals in some provinces should struggle just to survive while others continued to live in relative comfort.”<sup>55</sup>

Accordingly, they espoused the report’s call for the centralization of key revenues. Political scientist Peter Leslie maintains that key members of the commission staff aimed to put Ottawa in the fiscal driver’s seat for the sake of stability and fairness: “Some of the younger commission staff ...had become persuaded of the virtues of the Keynesian doctrine.... [the report] would transfer to Ottawa precisely those taxes that would be needed to implement a set of policies for economic stabilization.”<sup>56</sup>

On the other side of the discussion were less powerful Finance Ministry officials, including tax expert Ken Eaton and departmental solicitor Ross Tolmie. Support also came from income tax commissioner Fraser Elliott from the Department of National Revenue – along with the clear majority of the cabinet.<sup>57</sup> They had King’s ear. As the Prime Minister later recounted, there was strong cabinet opposition to the briefing documents on the report from his special assistant Leonard Brockington and Deputy Principal Secretary J. W. Pickersgill, “with the Bank of Canada in the background.”<sup>58</sup>

He noted with grim satisfaction: “It was interesting how the point of view of the intelligentsia by whom I am surrounded...was attacked from the entire cabinet

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<sup>55</sup> David Fransen, “*Unscrewing The Unscrutable: The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-1941*.” Unpublished thesis. Department of History, University of Toronto, 1984. pps. 451-452.

<sup>56</sup> Leslie, p. 17.

<sup>57</sup> David Fransen, “*Unscrewing The Unscrutable: The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-1941*,” p. 417.

<sup>58</sup> As quoted in David Fransen, “*Unscrewing The Unscrutable: The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-1941*,” p. 426.



circle.”<sup>59</sup> The intelligentsia wanted King to push unreservedly for complete implementation of the report. The majority of the cabinet wanted King to moderate Ottawa’s position, to be conciliatory during discussions with the provinces on the report, *not* to dictate adoption of its terms. That approach suited King perfectly. And that is what he would do.

### **The Intelligentsia Push For Implementation**

The high-level bureaucratic and political push to implement the report had commenced within three months of its tabling. In mid-September, under pressure from Bank of Canada Governor Towers, Finance Minister J. L. Ilesley presented cabinet with several options: “postpone action until after the war; hold a Dominion-provincial conference; or implement, as a wartime measure, the report’s most urgent recommendations.”<sup>60</sup> King appointed a cabinet subcommittee under Ilesley to consider the options for dealing with the report. As historian J. L. Granatstein reports, Ilesley went back to cabinet with a report of dissension among the provinces.<sup>61</sup>

King then read a letter to cabinet that he had received from Manitoba Premier John Bracken: As he told his diary, the Manitoba Premier was “strongly recommending” a conference.<sup>62</sup> But the ministers were uneasily aware of Ontario

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<sup>59</sup> David Fransen, *“Unscrewing The Unscrutable:” The Rowell-Sirois Commission, the Ottawa Bureaucracy, and Public Finance Reform 1935-1941..* pps. 425-426.

<sup>60</sup> Douglas H. Fullerton, *Graham Towers And His Times*, (Toronto: McClelland and Stewart, 1986) p. 153.

<sup>61</sup> J. L. Granatstein, *Canada’s War: The Politics of the Mackenzie King Government, 1939-1945* (Toronto: University of Toronto Press, 1990) pps. 164-165.

<sup>62</sup> Diary of William Lyon Mackenzie King, Thursday, October 22. 1940. p. 22131.

Premier Hepburn's private message that he was "unalterably opposed" to the report – "and would fight it to the limit."<sup>63</sup> Given that inflammatory rhetoric, the cabinet resolved that a conference would be "unwise." King should explain to Parliament "why holding of conference at this time was likely to be of little avail."<sup>64</sup> King added that, if there had been a possibility of agreement at a conference, he would "probably have arranged for one forthwith notwithstanding the possibility of criticism of diverting our energies from the war effort."<sup>65</sup> He was equivocating – even with himself.

In early November, however, Ilsley came back to cabinet with a modified proposal for a conference – and cabinet agreed. As Granatstein explains,

The warnings of impending financial disaster from Ilsley's Department could not be ignored; the pressing demands of Premier Bracken, supported by his fellow Manitoban, [federal Resources Minister] T. A. Crerar, could not readily be delayed further; and the federal government would be on much stronger ground if it could appear to the public as having been balked by provincial obstinacy.<sup>66</sup>

The poorer provinces needed to reach for the reassurance of equality and extra cash, especially in wartime. The richer provinces were appalled at this proposed permanent loss of their taxpayers' federal revenue – which would go to the poorer provinces. The Bank of Canada files include multiple newspaper articles about Hepburn's rage including: "Hepburn May Call Election For Test Of Public Opinion On

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<sup>63</sup> Diary of William Lyon Mackenzie King, Thursday, October 22. 1940.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=22131&>

<sup>64</sup> Diary of William Lyon Mackenzie King, Thursday, October 22. 1940.

<sup>65</sup> Diary of William Lyon Mackenzie King, Thursday, October 22. 1940..

<sup>66</sup> J. L. Granatstein, *Canada's War: The Politics of the Mackenzie King Government, 1939-1945* (Toronto: University of Toronto Press, 1975, 1990) p. 165.

Issue of Sirois Report” in mid-November, which conveyed Ontario’s objection to being “forced to swallow unfair provisions.”<sup>67</sup> Economist Angus was right about the richer provinces’ dismay.

King agreed to the conference. But he confided his misgivings to his diary:

I must confess I have little hope of getting anything of the Dominion-Provincial conference, nor am I personally wholly satisfied that the Sirois report should be accepted holus bolus. [Sic] Financial interests are so strong behind it all that I feel a bit suspicious about a report not according with more democratic views that should be made to prevail once this war is over. It will require careful study in advance.<sup>68</sup>

By mid-December, with the exception of Resources Minister Crerar, cabinet members essentially concluded that the upcoming conference “would amount to nothing.”<sup>69</sup> King suspected that Hepburn wanted to form a coalition against him to assume the leadership of the federal party – and that he would use the upcoming conference to boost his chances.<sup>70</sup> Ever shrewd, the Prime Minister told his ministers:

We would have to construct a mattress that would make it easy for the trapeze performers as they dropped to the ground one by one. I have never believed that the conference could succeed at this time

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<sup>67</sup> “Sirois Report Spells \$10,000,000 Annual Loss to Ontario: Hepburn May Call Election For Test Of Public Opinion On Issue Of Sirois Report,” in *The Evening Telegram*, Toronto, Friday, November 15, 1940. n.p. Bank of Canada Archives, Secretary’s fonds, File 291, B95.

<sup>68</sup> Diary of William Lyon Mackenzie King, Friday, December 6, 1940.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=22227&>

<sup>69</sup> Diary of William Lyon Mackenzie King, Friday, December 13, 1940.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=22241&>

<sup>70</sup> Diary of William Lyon Mackenzie King, Friday, December 13, 1940.

of war. Were the government not to make the attempt, it would be blamed for whatever financial disasters will follow, as it certainly will, in the course of the next year or two.<sup>71</sup>

### **The Dominion-Provincial Conference 1941**

The Dominion-Provincial Conference is dismissed today as a failure: After opposition from two relatively wealthy provinces – Ontario and British Columbia – and from monetary renegade Alberta, the Dominion dropped its proposal to implement the Royal Commission report; instead, Finance Minister J. L. Ilesley simply proclaimed Ottawa's right during wartime to assume control of provincial revenues from income taxes and succession duties, invoking the power of the War Measures Act. When the Conference broke up acrimoniously, Ilesley concluded tax rental deals with all provinces for the duration of the war plus one year. Ottawa "aimed to ensure that a single tax base and a single schedule of rate applied uniformly across the country...it would equip Ottawa to pursue a Keynesian stabilization policy, an intent announced in 1945."<sup>72</sup>

I contend that the Conference illustrates a classic example of Donald Smiley's dictum that governments are central players in policy formation. Canada could not have an expanded network of universal social programs until every province could afford roughly similar programs at roughly similar levels of taxation. Equalization would eventually solve that dilemma – because it would transfer federal funds on a non-conditional basis to those provinces. But the Rowell-Sirois report's scheme to

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<sup>71</sup> Diary of William Lyon Mackenzie King, Friday, December 13, 1940.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=22242>

<sup>72</sup> Leslie, p. 19.

centralize revenues, which would ensure that all provinces were largely dependent on Ottawa's generosity through compensatory grants, simply reinforced federal clout at the expense of provincial autonomy.

Nation building required an alternative, which was not on the table. The Rowell-Sirois report's master plan for the federation could not work amid the clashing social and provincial identities and the huge inequalities in money and political power among the provinces. Instead, it became a recipe for political instability and social dissension. King did not want to implement the report anyway: he did not want more responsibility for Ottawa – and he was desperate to preserve national unity, especially amid the eruption of another debate over conscription. The Rowell-Sirois report was not a recipe for social cohesion, especially with Quebec.

But the Dominion-Provincial Conference of 1941 does epitomize why Ottawa *had* to back away from the Commission's proposal to centralize revenues and provide explicit adjustment grants to the poorer provinces. Otherwise, the federal government would eventually have found itself pinned between the growing influence of the advocates for social security and fiscal equality such as social scientist Leonard Marsh with his Report on Social Security in Canada in 1943 along with the Canadian Welfare Council – and the fierce protectors of provincial rights and fiscal autonomy. The three principal protectors of provincial rights – Ontario, Alberta and British Columbia – were vocal in their opposition to the report at the 1941 conference. That stance would come at a price: They were pilloried as petty-minded politicians who guarded their turf at the expense of the war effort. But they

clearly represented the limits of generosity within the federation – and the need to respect each province’s constitutional rights and responsibilities.

Indeed, their messages were strikingly antagonistic to any suggestion that *their* taxpayers’ funds could be used to help their poorer kin. British Columbia Premier Duff Pattullo attacked the very notion of equalization payments. “The tendency of the course recommended by the [Royal Commission] would be to lower the general standard of development rather than to raise it. It would be a backward instead of a forward step...[British Columbia] does not want to be pushed down either to the bottom or half way, there to turn the treadmill of mediocrity in perpetuity.”<sup>73</sup>

Alberta Premier William Aberhart viewed the Royal Commission report as “diametrically opposed to the grand old British ideal of good government.”<sup>74</sup> He suggested that there was “a concerted and deliberate attempt being made by the money powers to increase centralized control of our national life while our attention is fully occupied with the prosecution of the war effort.”<sup>75</sup> Instead, he asked for Ottawa’s help in renewing his bonds at a lower rate of interest, and “we will be able to get along and look after our own problems.”<sup>76</sup>

Ontario Premier Mitchell Hepburn, who loathed King (and vice versa), delivered a lengthy denunciation of Ottawa – and its works– including recent increases in federal income tax. The constitutional changes that the report proposed were extremely controversial. There were already complaints that Quebec would be

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<sup>73</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences : : November 3-10, 1927; December 9-13, 1935 and January 14-15, 1941.* (Ottawa: Edmond Cloutier, King’s Printer, 1951) 39.

<sup>74</sup> Dominion-Provincial Conference, January 14-15, 1941, 56.

<sup>75</sup> Dominion-Provincial Conference, January 14-15, 1941, 59.

<sup>76</sup> Dominion-Provincial Conference, January 14-15, 1941. 61.

“getting preferred treatment” through the commission’s proposed national adjustment grants. The Premier added that Ontario would “stand solidly” beside Quebec if any constitutional change threatened its minority rights.<sup>77</sup> But Ontario would not endorse the Rowell-Sirois Commission’s report. “To me it is unthinkable that we should be fiddling while London is burning,” he told his fellow First Ministers. “This is a peace-time document, and we believe honestly and sincerely that the time to discuss it is not now.”<sup>78</sup>

The remaining six provinces were also divided. There were three relatively neutral provinces – Quebec, New Brunswick and Nova Scotia – that depicted themselves as listeners. This did not mean that they were content. Intriguingly, this group included Quebec Premier Adélard Godbout who owed his electoral victory in October 1939 to the intercession of federal Liberals. Mackenzie King’s ministers had intervened strongly on his behalf in that election: the campaigners had included Postmaster General Charles “Chubby” Power and Justice Minister Ernest Lapointe, who had declared that King’s Quebec ministers “would resign unless the Liberal party received a vote of confidence from Quebecers at the provincial level.”<sup>79</sup>

In return for that boost, Godbout toned down the vehement defence of provincial rights that former Premier Maurice Duplessis had espoused. Instead, Godbout was conciliatory. He did not denounce King for his attempted violation of Quebec’s constitutional rights. But he was no pushover. Any temporary wartime tax measures should not determine “the permanent future of Canada...Never shall we build a great

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<sup>77</sup> Dominion-Provincial Conference, January 14-15, 1941, 15.

<sup>78</sup> Dominion-Provincial Conference, January 14-15, 1941, 16.

<sup>79</sup> Patricia Dirks, *The Failure of L’Action Libérale Nationale*, (Montreal and Kingston: McGill-Queen’s University Press, 1991) 142.

country on provinces which have not sufficient liberty of action and responsibility for the development of that great incentive to progress which is necessary in public affairs.”<sup>80</sup>

The Premier emphasized that he would *not* jeopardize provincial autonomy: His willingness “to study problems must not be understood as involving a willingness to sacrifice provincial rights or autonomy....a scrupulous respect for provincial rights is essential to Canadian unity and Canadian progress.”<sup>81</sup> And he pointedly put on the record the extent of his province’s wartime contribution: “The financial provisions in the [Rowell-Sirois] report involve serious financial sacrifice for Quebec.”<sup>82</sup>

Godbout defended his province’s constitutional right to maintain the vibrancy of his province’s language and culture – while premiers such as Hepburn argued that the *national* well-being depended on a healthy federation with strong member governments. *Le Devoir* was fascinated. Godbout’s statement was “neither fish nor fowl” (“ni chair ni poisson”) while Hepburn had effectively “torpedoed a dangerous movement destined to accentuate the centralization of Ottawa’s powers.” (The sub-headline was “Mr. Hepburn throws his bomb.”)<sup>83</sup>

Nova Scotia Premier A. S. MacMillan was a newcomer to the table: the veteran cabinet minister had replaced Angus L. Macdonald when the Premier had joined Mackenzie King’s government as defence minister for naval services in July 1940. Almost predictably, MacMillan blamed Confederation for his province’s descent

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<sup>80</sup> Quebec Premier Adélard Godbout, Dominion-Provincial Conference, p. 17.

<sup>81</sup> Quebec Premier Godbout, January 15, pps. 82-83.

<sup>82</sup> Dominion-Provincial Conference, January 14-15, 1941. 83.

<sup>83</sup> Léopold Richer, “Elle paraît marcher vers un échec éclatant” in *Le Devoir*, Wednesday, January 15, 1941. My translation.



from prosperity to near-poverty since the mid-19<sup>th</sup> century. Federal policies in transportation, settlement and tariffs “were formulated primarily to assist the economic development of the central and western provinces.”<sup>84</sup> MacMillan embraced the Royal Commission’s call for National Adjustment Grants that could be spent on his province’s social and economic needs. As he told his fellow Premiers, he needed “sufficient finances to meet and care for our provincial responsibilities ...with average severity of taxation.”<sup>85</sup> In effect, he wanted the program that did not yet exist: equalization. But he was not an outright cheerleader for the recommendations.

New Brunswick Premier J. B. McNair, who was also a relative rookie, complained that the Commission had rejected his province’s demand for special treatment at the hearings. But he declared that it was “too early” to adopt an opinion on the report’s financial proposals.<sup>86</sup>

And then there were three provinces – Manitoba, Saskatchewan and Prince Edward Island – that supported the implementation of the report – because their budgets were so strained and their inequality was so glaring. For Manitoba Premier John Bracken. Prince Edward Island Premier Thane A. Campbell, and Saskatchewan Premier W. J. Patterson, the proposed National Adjustment Grants were models of sharing. Their taxes were almost unreasonably high; they could not afford to deliver comparable social services to their citizenry. Their budgets were close to breaking –

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<sup>84</sup> Dominion-Provincial Conference, January 14-15, 1941 in *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, Printer to the King’s Most Excellent Majesty, 1941) 17.

<sup>85</sup> Dominion-Provincial Conference, January 14-15, 1941. 18.

<sup>86</sup> Dominion-Provincial Conference, January 14-15, 1941, 19.

and their political fates could hang on their ability to secure more funds from Ottawa. Patterson, in fact, would lose to the Co-operative Commonwealth Federation in 1944, largely because the CCF promised a more socially active government. These three Premiers argued that the nation would be stronger through sharing. Of course, the model of equalization was not on the table: It would have been political suicide to suggest that Ottawa simply transfer non-conditional funds to them – especially in wartime. That solution would probably not have occurred to them anyway.

It had been the same old song for these Premiers for several years. And they were weary. Manitoba Premier Bracken warned that, if the First Ministers did not implement the report, they would “be encouraging a drift toward disunity – a drift toward balkanization of the nine provinces and five economic areas of this dominion.”<sup>87</sup> (Presumably, he meant the Maritimes, Ontario, Quebec, the Prairie Provinces and British Columbia.) He emphasized that Manitoba did not have adequate revenues “to maintain an average Canadian standard of social and educational services, and at the same time pay these relief costs and service our debt.”<sup>88</sup>

Prince Edward Island Premier Campbell berated those provinces that had lowered the interest on their bonds: his province had dutifully met the interest costs on its bonds while Alberta had defaulted. He concluded that the National Adjustment Grants would be in every government’s interest, rich or poor: “There are very many transactions to which both parties to every one of them are winners, as is illustrated

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<sup>87</sup> Dominion-Provincial Conference, January 14-15, 1941. 23.

<sup>88</sup> Dominion-Provincial Conference, January 14-15, 1941. 25.

by ordinary transactions of trade, whether between individuals or nations. The man who parts with his money is not by any means always the loser.”<sup>89</sup> But, poor as his province was, Campbell could not resist a note of resentment: Because PEI had the lowest per-capita debt among the provinces, “it would seem that we shall be called upon to *share* the burden of those provinces whose per capita debts are higher than ours.”<sup>90</sup>

Saskatchewan Premier W. J. Patterson argued that the report should be implemented because “if Ottawa and the provincial governments are not functioning effectively and to the maximum of their capacity we cannot effectively, or at least as effectively as we should, prosecute our war effort, nor can we as effectively deal with the problems which will arise after the war.” This was the exact opposite of Ontario Premier Hepburn’s reasoning: implementation was necessary in wartime. Patterson added that all Canadians, no matter where they lived, should “enjoy a somewhat comparable measure of service and attention from the government under which they happen to live.”<sup>91</sup>

The Conference was a failure. But it was a microcosm of the conflicting impulses that prevailed throughout Canada. Then and now. On the afternoon of the second day, Finance Minister J. L. Ilsley explained that Ottawa needed roughly one billion dollars per year to finance the war effort. That was twice the size of its peacetime budget – and larger than the combined total of all annual federal, provincial and

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<sup>89</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, King’s Printer, 1951), 44.

<sup>90</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, King’s Printer, 1951), 48.

<sup>91</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, King’s Printer, 1951), 54.

municipal expenditures during peacetime. He supported the report because the divisions within Canada were “economic divisions, *not racial and religious divisions*.”<sup>92</sup>

And now came the bad news. Since the provinces could not agree among themselves, Ottawa would use its power to invade the provincial fields of taxation for income tax and succession duties. Ilsley explained that Canada needed a tax system “which will enable us to distribute the burden as fairly as human ingenuity can devise over the people of Canada as a whole, whatever region they may live in or whatever economic class they may represent – and fairness in taxation means, in my opinion, ‘in accordance with ability to pay’.”<sup>93</sup> Ilsley was not aiming to provide better services: he aspired for relatively equal levels of taxation in all provinces to wage war. And he was explicit about his powers: “There is no question of our power to do the things that are necessary. Under the British North America Act our taxing authority is not limited. Under the War Measures Act we may do what is necessary as a war measure.”<sup>94</sup>

King concluded the conference with the offer to reconvene if the nine provinces could reach unanimity. The Conference closed with the singing of the national anthem. The Royal Commission members were dashed – especially because of the resistance from Hepburn, Pattullo and Aberhart. As Henry Angus in Vancouver wrote privately to his fellow Commissioner, R. A. (Bert) MacKay in Halifax:

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<sup>92</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, King’s Printer, 1951), 73. My italics.

<sup>93</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, King’s Printer, 1951). 73.

<sup>94</sup> Dominion-Provincial Conference, January 14-15, 1941. *Dominion-Provincial Conferences* (Ottawa: Edmond Cloutier, King’s Printer, 1951). 75.

“Personally I think a definite bust-up was much better than prolonged and fruitless debate. The three stalwarts are strange bed-fellows and they face something of an anti-climax in explaining how they have helped to win the war.”<sup>95</sup> Alex Skelton shared their dismay. As he told *Winnipeg Free Press* Ottawa correspondent Grant Dexter, the politicians had missed a golden opportunity to centralize revenues permanently. Instead, they had adopted “a poor second best [plan]...buying out the ‘sons-of-bitches.’”<sup>96</sup>

That reaction was at odds with King’s. As the Prime Minister later told his diary with brutal frankness, he was “distinctly relieved and happy” about the result: “While, to appearances, it has been a failure, in reality it has served the purpose we had in view, of avoiding attack for not having called the conference, and particularly what would certainly have followed, invasion of provincial sources of revenues. We have now got the pledge of the provinces to let us take their revenues if we need them – a tremendous achievement.”<sup>97</sup>

The tax agreements ensured that Ottawa and its provincial partners maintained fiscal harmony throughout the war. The poorer provinces secured adequate compensation for their needs for the duration of the war. The wealthier ones preserved their constitutional right to key revenues – in return for a temporary loss of control. All provinces might argue with federal finance officials about the

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<sup>95</sup> Henry Angus to R.A. MacKay, January 28, 1941. LAC, MG30, Series E159, Vol. 8, File: Rowell Sirois Correspondence, 1938-1941, p. 1.

<sup>96</sup> *Winnipeg Free Press* Correspondent Grant Dexter to Editor John Dafoe, May 13, 1941, as quoted in Fransen, p. 464.

<sup>97</sup> Diary of William Lyon Mackenzie King, Wednesday, January 15, 1941.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=22332&>

details of their tax-rental agreements. But they would not bother Mackenzie King about the implementation of the Rowell-Sirois report throughout the tough years of the war.

But the reputations of the three dissenting Premiers would suffer. Aberhart would die in May 1943 – still a polarizing renegade. As Pattullo’s biographer, historian Robin Fisher, notes, “those two days in Ottawa were to determine the course of the rest of his political career.”<sup>98</sup> Branded as a saboteur of the wartime effort, he would emerge from the October 1941 election with a minority government and a rebellious caucus – and he would resign in early December. Hepburn, too, was pilloried on his return from Ottawa, although his biographer, historian John T. Saywell, notes that he was “not contrite”: “He was so incensed by the criticism of his stand at the Conference that the government placed large ads in provincial newspapers.”<sup>99</sup> But Hepburn had made dangerous enemies in Ottawa and within his own caucus. He would resign as Premier in October 1942. King rejoiced.<sup>100</sup>

### **Mackenzie King, the Australians and the Report**

The cautious King would never share the fascination with the report. He was in frequent touch with Australia as a sister Dominion-in-Arms during the war – although not about the report. Initially, the relationship was cooperative: The two nations developed the British Commonwealth Air Training Plan – and agreed to

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<sup>98</sup> Robin Fisher, *Duff Pattullo of British Columbia* (Toronto: University of Toronto Press, 1991) 334.

<sup>99</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*. (Toronto: University of Toronto Press, 1991) 462.

<sup>100</sup> John T. Saywell, *“Just call me Mitch”: The Life of Mitchell F. Hepburn*, 493.

exchange High Commissioners – after the outbreak of war. So far, so good. But when King recalled High Commissioner Charles J. Burchell in July 1941, he selected a disastrous replacement, Major-General Victor Odlum. In January 1942, Odlum impulsively promised Canadian military aid to Australia without authorization. When a desperate Australia gratefully accepted, and the new Labor Government of Prime Minister John Curtin took heart, King did not initially contradict his High Commissioner. The drawn-out disappointment of the eventual rejection would plague diplomatic relations until King retired in 1948, and the Australians defeated their Labor Government in 1949.<sup>101</sup>

True, there remained grounds for some cooperation: after all, they were allies in the war. They would gracefully receive each other's visiting delegations. King's diaries reflect his mixed reactions to those contacts.<sup>102</sup> But the Prime Minister would *never* pay attention to the Australian Commonwealth Grants Commission. Although Ottawa would deliver grants to the provinces in wartime that were effectively, if only minimally, equalized – because each province pocketed the same per-capita amount even though the wealthier ones raised more money with each percentage point of tax – the principle did not preoccupy federal governments.

The Australians had followed the drama at the conference closely. But they did not comprehend King's devious strategy – so they did not view it as an escape for King. Instead, in a lengthy account to the External Affairs Secretary in Canberra,

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<sup>101</sup> Galen Perras, "She Should Have Thought of Herself First": Canada and Military Aid to Australia, 1939-45" in *Parties Long Estranged: Canada and Australia in the Twentieth Century*, eds. Margaret MacMillan and Francine McKenzie (Vancouver: UBC Press, 2003. p. 144.

<sup>102</sup> I went through *every* reference to Australia in King's Diaries from 1938 through to 1949.

High Commissioner Sir William Glasgow concentrated on the political instability that three Provinces had created when they resisted the implementation of the report. Ontario's Hepburn, Alberta's Aberhart and British Columbia's Pattullo "made the proceedings lively from the outset" when they flatly refused to discuss the details of the report.<sup>103</sup> While some commentators blamed King for calling the conference in wartime, Sir William Glasgow explained, the "majority of responsible newspapers" condemned the three Premiers "for destroying national unity."<sup>104</sup>

Ever mindful of the need for national unity, especially in wartime, Glasgow admirably singled out Quebec Premier Adélard Godbout's declaration: "We come here as Canadians, with as strong a spirit of Canadianism as anyone has."<sup>105</sup>

The High Commissioner did not concentrate on the problem of fiscal inequality although he noted that King had linked implementation of the report to a more effective war effort. The implied lesson was that federations were particularly tricky creatures in wartime – and harmony among the partners could be the key to political survival and social stability. The High Commissioner did not grasp King's relief at the failure to achieve this unanimity at the ironic price of national unity.

### **The Bank Of Canada Plots to Pick Up The Pieces**

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<sup>103</sup> Australian High Commissioner to Canada Sir William Glasgow to Australian External Affairs Secretary in Canberra, January 20, 1941. National Archives of Australia, Australian High Commissioner in Canada – Memoranda from, Series A461, Control Symbol D348/1/15, Barcode 1950707, p. 1.

<sup>104</sup> Australian High Commissioner to Canada Sir William Glasgow to Australian External Affairs Secretary in Canberra, January 20, 1941, p. 2.

<sup>105</sup> Australian High Commissioner to Canada Sir William Glasgow to Australian External Affairs Secretary in Canberra, January 20, 1941, p. 1.



Meanwhile, in Ottawa, Bank of Canada officials were struggling to deal with the fallout from the deadlocked conference. As advocates of the Royal Commission report, they did not want to abandon it. In a memorandum on January 20, 1941, the deputy chief of the research department, J. R. Beattie, sketched out a strategy that could resolve the difficult discussions. “The most serious objection made at the Conference to the implementation of the Report was that permanent measures were not justified to meet a temporary situation. .... [But] all the recalcitrant or doubtful provinces said that they were willing to take any action, or bear any burden, which was necessitated by the war, for the duration of the war.” Therefore, Ottawa should ask the provinces to *temporarily* yield the three great fields of direct taxation to Ottawa. Otherwise, it would “be impossible to finance the enormous total of war and other governmental expenditure *with even a minimum degree of equity*.”<sup>106</sup>

That appeal for fiscal equity in wartime was a new argument. Beattie did not want to arouse jealousy among the individual taxpayers in the different provinces who were funding the war effort: if Ottawa imposed those three taxes *at the same rates* across the nation, the burden could be shared equally. In return, Ottawa could provide “temporary assistance” to those provinces that surrendered control.<sup>107</sup>

Beattie had a larger post-war scheme in mind, too. In the short-term, Ottawa should ensure that the word ‘temporary’ was “plastered all over the agreement.”<sup>108</sup> In the longer term, “it would greatly facilitate final adoption of the Report if any temporary arrangements which have to be made could conform to the broad outline

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<sup>106</sup> Memorandum from Bank of Canada Deputy Chief of Research J R. Beattie, January 20, 1941. Bank of Canada Archives, Secretary’s fonds, B95 File 291, p. 1. My italics.

<sup>107</sup> Memorandum from Bank of Canada Deputy Chief of Research J R. Beattie, p. 1.

<sup>108</sup> Memorandum from Bank of Canada Deputy Chief of Research J R. Beattie, p. 2.

of [the Royal Commission] proposals as closely as possible.”<sup>109</sup> Despite the strong objections from the three dissenting Premiers, at least some Ottawa officials had not given up hope that they could implement the Royal Commission report in peacetime. They did not yet understand that the loss of social cohesion and the danger to national unity was too big a price to pay for forced fiscal equality.

### **The Tax Rental Deals**

Such calls for permanent constitutional change would have appalled King. Thanks to Ilsley, he had secured the funds to fight the war without federal entanglement in costly schemes. But although the Prime Minister would not live to realize it, he had also taken the first tiny steps toward equalization. One after another, by May 1942, all provinces signed tax rental agreements with Ottawa that would run until a year after the end of the war. Under those deals, the provinces were asked to refrain from levying personal and corporate income taxes and succession duties.

In turn, they would receive grants based on one of two mechanisms. Under the first option, grants would be based on the revenues collected within a province’s boundaries from those three taxes in 1941. Quebec, Ontario, Manitoba, British Columbia and initially Alberta selected this option, which economist Thomas Courchene views as “the antithesis of equalization” because it was based on each individual province’s tax take.<sup>110</sup>

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<sup>109</sup> Memorandum from Bank of Canada Deputy Chief of Research J R. Beattie, p. 3.

<sup>110</sup> Thomas J. Courchene, *Equalization Payments: Past, Present and Future* (Toronto: Ontario Economic Council, 1984) 27.

Under the second option, grants would be based on the net cost of servicing a province's debt in 1940-41 – minus succession duties collected in that year. Four poorer provinces – Saskatchewan and the three Maritime provinces – selected this option. The existence of the two options was fascinating in itself: "It is possible to argue that the availability of a choice of options embodied some consideration of fiscal need," notes Courchene.<sup>111</sup> (Alberta would later move to the second option.)

Perhaps more important, however, the Dominion agreed to augment those payments "by appropriate fiscal need subsidies where it can be shown that these are necessary."<sup>112</sup> Former senior federal finance official R. M. Burns notes that Ottawa "had always been reluctant to acknowledge fiscal need per se as a basis for grants to the provinces, preferring adjustments to statutory subsidies or special grants to acknowledge any fundamental disabilities within the federation."<sup>113</sup> But the grants that Ottawa had introduced for the Maritimes in the late 1920s and the mid-1930s – in response to the Duncan and White reports – had already recognized special needs, at least indirectly. Now, officially, Ottawa crossed this rhetorical bridge: the rental agreements would effectively replace the special grants to the West and the awards to the Maritimes with subsidies based on *existing* fiscal need. Ottawa also guaranteed that provincial revenues from liquor and gasoline sales would not fall below the level of 1940.

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<sup>111</sup> Thomas J. Courchene, *Equalization Payments: Past, Present and Future* (Toronto: Ontario Economic Council, 1984) 27.

<sup>112</sup> As quoted in R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962* (Toronto: Canadian Tax Foundation, 1980) 32.

<sup>113</sup> R. M. Burns, 29.

In effect, the tax rental deals established a vital point: the poorer provinces would now get *extra* revenue in return for cooperating with Ottawa – although no province actually had a legal choice to ignore the deals. “It was the war that changed everything,” Burns remarks. “On both patriotic and constitutional grounds, the Dominion’s unlimited authority under wartime emergencies was fully established.”<sup>114</sup>

### **The Australian-Canadian Relationship in Wartime**

The Australian interest in Canada continued throughout the war – and into peacetime. Australian diplomats paid special attention to Canadian unity – perhaps because instability plagued their own domestic political parties. In April 1941, the High Commission’s Official Secretary Noël Deschamps forwarded a lengthy report from *The Montreal Gazette* along with an emphatic covering letter, outlining the speech of Montreal Cardinal Jean-Marie-Rodrigue Villeneuve to a prestigious Toronto audience. The Cardinal had appealed for national unity, denying the existence of “any strong separatist movement” in Quebec.”<sup>115</sup> Australian Deschamps depicted the positive speech as “an authoritative statement of the French Canadian Attitude at the present time.”<sup>116</sup>

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<sup>114</sup> R. M. Burns, 35.

<sup>115</sup> High Commission Secretary Noël Deschamps to External Affairs Department Secretary, Memorandum, April 24, 1941. National Archives of Australia, Canada-Internal Part 1, Series number A981, Control symbol CAN 21 Part 1, Barcode 173371. p. 1.

<sup>116</sup> High Commission Secretary Noël Deschamps to External Affairs Department Secretary, Memorandum, April 24, 1941. p. 1.

The interest was mutual – but King *never* dealt with the Commonwealth Grants Commission during those years. There was little room in his wartime life for the consideration of federal-provincial grants to the poorer provinces, let alone the Australian model for delivering such grants. But there are several hundred references to Australia sprinkled throughout his Diaries from 1939 through to the end of the war and its aftermath.

### **The Push For Social Citizenship**

As the Dominions struggled to maintain stability at home, the world was changing around them. Among the North Atlantic allies, the pressures for expanded social security were growing – if only to preserve social stability. Politicians, academics and social organizations such as the National Council of Women of Canada, which was a pivotal if relatively privileged voice for Canadian women, and the Canadian Congress of Labour, were now advocating the creation of a better post-war world with extended rights to social security. Those groups wrestled with the same apparently conflicting notions of sharing and dependency as their politicians: balance seemed difficult to attain.

But they would no longer accept constitutional excuses for any failure to act: there had to be a way to extend social security despite the provinces' responsibility for education, health care and social services. Their effect on their politicians as they demanded these rights – especially within Anglophone Canada – would become increasingly powerful. As James Struthers notes, there was a “symbolic change of thinking about wartime social policy which underpinned Canada’s emerging welfare

state... This shift in emphasis from charity to entitlement has long been viewed as a central metaphorical turn in the construction of the welfare state.”<sup>117</sup>

But idealism was not the principle motivator. Historian Jennifer Stephen has aptly summarized the process: key federal social policies “are more accurately read as the collective product of a strategic compromise to meet the economic and political challenges confronting Canadian federalism in the 1940s rather than a broad endorsement of democratic principles.”<sup>118</sup> In other words, the politicians had to act to preserve stability and their own hegemony.

The reformers nurtured a sentiment that had been percolating over the last few decades: social assistance for struggling people was a moral duty for individuals – but it was also a moral obligation that wealthier states owed to their poorer federal kin. As early as the 1920s, as political scientist R.J. May writes, the Premiers of the Australian states had stoutly defended the continuation of their per-capita payments from the Commonwealth as a “moral right.” Tasmanian Premier J. A. Lyons, who would later become Australian Prime Minister, had buttressed his case for continued per-capita payments to the states with the claim that “the effect [of

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<sup>117</sup> James Struthers, “Family Allowances, Old Age Security, and the Construction of Entitlement in the Canadian Welfare State, 1943-1951” in *The Veterans Charter and Post-World War II Canada*, eds. Peter Neary and J. L. Granatstein (Montreal & Kingston: McGill-Queen’s University Press, 1998) p. 179.

<sup>118</sup> Jennifer A. Stephen, *Pick One Intelligent Girl: Employability, Domesticity, and the Gendering of Canada’s Welfare States, 1939-1947* (Toronto: University of Toronto Press, 2007) p. 9. Stephen said that she was paraphrasing Struthers – but her summary was far more succinct.

abolition] would be much more serious on the smaller states.”<sup>119</sup> Fiscal inequalities among governments could not be brushed aside.

During the 1930s, that moral right to social resources was reinforced with an implicit threat to social cohesion if it were not recognized. As historian David M. Kennedy notes, U.S. President Franklin Roosevelt told Congress in June 1935 that the federal tax system was contributing to an “unjust concentration of wealth and economic power...Social unrest and a deepening sense of unfairness are dangers to our national life which we must minimize by rigorous methods.”<sup>120</sup> Roosevelt introduced the landmark Social Security Act of 1935, which provided aid to dependent children and pensions for the elderly.

More importantly, the act levied a federal tax on employers of eight or more workers, which would finance Unemployment Insurance. States could administer their own UI plans, capturing about ninety per cent of the federal levy through tax-offset plans. (Within the next few years, all states would join the plan.) As Kennedy adds: “Security is the leitmotif of virtually everything the New Deal attempted... Its cardinal aim was not to destroy capitalism but to devolatilize it, and at the same time to distribute its benefits more evenly.”<sup>121</sup>

A year later, on June 7, 1936, Roosevelt accepted his party’s nomination with a paean to the role of government in hard times: “There is a mysterious cycle in

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<sup>119</sup> R.J. May, *Financing the Small States in Australian Federalism* (Melbourne: Oxford University Press, 1971) 13.

<sup>120</sup> David M. Kennedy, *Freedom From Fear: The American People in Depression and War, 1929-1945* (New York: Oxford University Press, 1999) 275.

<sup>121</sup> David M. Kennedy, *Freedom From Fear: The American People in Depression and War, 1929-1945* (New York and Oxford: Oxford University Press, 1999) 365, 372.

human events. To some generations much is given. Of other generations much is expected. This generation of Americans has a rendezvous with destiny.”<sup>122</sup>

That sentiment of moral obligation to lower-income citizens spilled into Canada as wartime sacrifices engendered dreams of a better world. In early 1939, the cabinet had created an Economic Advisory Committee (EAC) of state officials to oversee the war.<sup>123</sup> It would eventually be drawn into planning for peacetime. In September 1941, as University of Winnipeg economist Hugh Grant notes, the cabinet had formally recognized the existence of an Advisory Committee on Reconstruction, which the president of McGill University, Cyril James, chaired and social scientist Leonard Marsh served as secretary.<sup>124</sup>

That committee agreed on three assumptions: social security measures would be conducive to a healthy economy and full employment; the postwar years could bring “considerable economic and social dislocation”; and perhaps most importantly, “inevitably, the state and the bureaucracy would have to continue to exercise in the post-war world at least a portion of the powers they had assumed to handle the wartime emergency.”<sup>125</sup>

The release of its “extremely modest” interim report in the autumn of 1942 fueled a simmering turf war between National Health Minister Ian Mackenzie and

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<sup>122</sup> Kennedy, 281.

<sup>123</sup> Diary of William Lyon Mackenzie King, Friday, July 16, 1943. p. 25623.

<sup>124</sup> Hugh Grant, *W. A. Mackintosh: The Life of a Canadian Economist* (Montreal & Kingston: McGill-Queen’s University Press, 2015) p. 270.

<sup>125</sup> Doug Owsam, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: University of Toronto Press, 1986) p. 282.



Finance Ministry and Bank of Canada officials.<sup>126</sup> What was the role of the state in fostering employment – and how should it tackle the issue? As Stephen observes, the manpower crisis “was a battleground upon which the varying rights of citizenship and property would be contested by employers, veterans’ organizations, trade unions, and individual men and women.”<sup>127</sup>

The social activists within the government envisaged a better community – indeed, a better world. They were well aware of the report that social reformer William Beveridge had submitted to the British Parliament in November 1942, which proposed a minimum standard of living for all citizens. In December 1942, Health Minister Mackenzie pointedly reminded the cabinet’s Advisory Committee on Reconstruction that Canada had subscribed “immediately” to the Atlantic Charter which U.S. President Franklin Roosevelt and British Prime Minister Winston Churchill had drawn up in August 1941.<sup>128</sup> In that Charter’s statement of principles, the two leaders had vowed to ensure that “all the men in all lands may live out their lives in freedom from fear and want.”<sup>129</sup>

Mackenzie stressed that the Prime Minister “has repeatedly underlined and emphasized the determination of this country to establish for all our people security

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<sup>126</sup> Doug Owsram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945*, 283.

<sup>127</sup> Jennifer A. Stephen, *Pick One Intelligent Girl: Employability, Domesticity, and the Gendering of Canada’s Welfare States, 1939-1947* (Toronto: University of Toronto Press, 2007) p. 20.

<sup>128</sup> Chairman Ian Mackenzie from the Minutes of Proceedings of the House of Commons committee on reconstruction, Special joint meeting, December 4, 1942. LAC, MG28, Series I103, Vol. 195, File: Federal Government House of Commons Special Committee on Reconstruction and Re-establishment 195-16, p. 5.

<sup>129</sup> Quotation from Atlantic Charter:

<http://avalon.law.yale.edu/wwii/atlantic.asp>

from the great fears which haunt the majority of mankind from infancy to the grave - -- the fear of ill health, the fear of unemployment, the fear of hunger, and the fear of an impoverished old age.”<sup>130</sup> Mackenzie would lose that bureaucratic battle – but he had driven home “the necessity of planning for reconstruction” – especially within a federation.<sup>131</sup>

The bureaucratic wheels turned slowly. In early 1942, the cabinet appointed a formal Advisory Committee on Health Insurance. In 1943, Prime Minister King swung behind the concept, using the Speech From the Throne to call for a “comprehensive national scheme of social insurance.”<sup>132</sup> Both Houses of Parliament created committees to study the issue – and Health Minister Mackenzie tabled a proposal for national health insurance in cabinet. As medical historian Dr. C. David Naylor explains, Mackenzie argued that socialism had become “a national political menace,” and that a federal-provincial conference should consider draft health legislation “as soon as possible.”<sup>133</sup> Mackenzie wanted the Liberals to pull the rug out from under any so-called socialist appeal from the Co-operative Commonwealth Federation.

In mid-March 1943, the Advisory Committee on Health Insurance reported to the House of Commons Committee on Social Security.<sup>134</sup> The massive 558-page

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<sup>130</sup> Chairman Ian Mackenzie from the Minutes of Proceedings of the House of Commons committee on reconstruction, Special joint meeting, December 4, 1942. LAC, MG28, Series I103, Vol. 195, File: Federal Government House of Commons Special Committee on Reconstruction and Re-establishment 195-16, p. 5.

<sup>131</sup> Owram, 286.

<sup>132</sup> Owram, 290.

<sup>133</sup> Naylor, p. 120.

<sup>134</sup> Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, August 6, 1945. *Dominion-Provincial Submissions and Plenary*

Advisory Committee report included two draft bills: one set out the mechanism to retain federal influence over the provinces through conditional grants-in-aid for health care to the provinces; the second outlined draft provincial legislation to establish a commission that would administer health insurance.<sup>135</sup> Ottawa would pay three-fifths of the provincial cost through the grants-in-aid; the provincial governments would pay the remaining two-fifths through a tax of \$12 imposed upon each adult.<sup>136</sup>

The movement gathered momentum. In January 1944, the Speech From The Throne outlined Ottawa's intention "to bring in a nation-wide system of health insurance as soon as suitable arrangements could be made with the provinces."<sup>137</sup> In May 1944, provincial ministers and bureaucrats met in Ottawa to discuss the draft Health Insurance bill – and how to meet those costs. According to a later federal summary, most provinces "indicated their strong desire that health insurance should be proceeded with by stages and that any scheme adopted should be flexible

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*Conference Discussions* (Ottawa: Edmond Cloutier, Printer to the King's Most Excellent Majesty, 1946) pps. 87-88.

<sup>135</sup> C. David Naylor, *Private Practice, Public Payment: Canadian Medicine and the Politics of Health Insurance 1911-1966* (Kingston and Montreal: McGill-Queen's University Press, 1986. Pps. 109-110.

And: Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, August 6, 1945. *Dominion-Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer to the King's Most Excellent Majesty, 1946) p. 88.

<sup>136</sup> C. David Naylor, *Private Practice, Public Payment: Canadian Medicine and the Politics of Health Insurance 1911-1966*. Pps. 109-110.

<sup>137</sup> C. David Naylor, *Private Practice, Public Payment: Canadian Medicine and the Politics of Health Insurance 1911-1966*. Pps. 109-110.

enough to permit the provinces to build on the varying services in each province.”<sup>138</sup>

Optimism was in the air.

The Australians were fascinated, reporting to Canberra on the salient social measures that the federal government was considering: Ottawa wanted to establish the men and women of the armed forces “in useful and remunerative employment after the war.”<sup>139</sup> It aimed to secure “adequate income and full employment after the war for primary producers.”<sup>140</sup> Perhaps most important:

Government believes that a comprehensive national scheme of social insurance, which will constitute charter of social security for whole of Canada, should be worked out at once. It proposes early appointment therefore of Select Committee to examine and report on most practicable measures of social insurance, including national system of health insurance.<sup>141</sup>

But it was social scientist Leonard Marsh who would outline the most comprehensive proposal in the wake of the restrained Advisory Committee on Reconstruction report. In March 1943, Marsh presented a 300-page package to House of Commons Committee on Reconstruction, calling for a comprehensive social minimum that included unemployment assistance, employment retraining, health insurance, and children’s allowances.<sup>142</sup>

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<sup>138</sup> C. David Naylor, *Private Practice, Public Payment: Canadian Medicine and the Politics of Health Insurance 1911-1966*. Pps. 109-110.

<sup>139</sup> Cablegram to Full Cabinet from Australian High Commissioner’s Office, January 31, 1943. National Archives of Australia. Canada – Internal: Subject: Canadian War Policy – Summary of Speech regarding. Series: A989, Control Symbol: 1943/125/4/1, Barcode: 183417, p. 1

<sup>140</sup> Cablegram to Full Cabinet from Australian High Commissioner’s Office, January 31, 1943.

<sup>141</sup> Cablegram to Full Cabinet from Australian High Commissioner’s Office.

<sup>142</sup> Cablegram to Full Cabinet from Australian High Commissioner’s Office, 290. Also: John I Clark, “Report on Social Security for Canada 1945,” book review in *Canadian Public Policy*, Volume 1, Number 4 (Autumn 1975) pps. 585-589.

Two months later, an International Labour Office Review of the Marsh report and Ottawa's proposed health insurance legislation noted: "Social security has become identified with that better world for which they [Canadians] are fighting."<sup>143</sup> In a hint at the continuing anxiety about dependency, however, the ILO analysis added: "Social insurance benefits must be less than the earnings of the self-supporting individual, while social assistance payments must be less than the earnings of the unskilled worker."<sup>144</sup>

It is important to note that reports such as those from Leonard Marsh and Ian Mackenzie dealt with inequality among people: they did *not* tackle the glaring inequalities among governments that remained a basic barrier to social reform within the federation. Ottawa could dream – but it still lacked the practical fiscal mechanism to implement those dreams. Provinces could not instigate full social programs until there was relative fiscal equality among the federation members.

### **The Yearning For A Better World**

The federal Liberal government was uneasily aware that it could not just win the war – it had to win the peace – if it was going to meet its voters' expectations. Perhaps the August 1943 report from the reconstruction committee of the Canadian Teachers' Federation best epitomized this yearning: it embraced the idea of The Good Life, which American educator George S. Counts had propounded during the

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<sup>143</sup> "Social Security Planning In Canada: The Marsh Report and Proposed Health Insurance Legislation" in the *International Labour Review*, Vol. XLVII, No. 5, May 1943 (Montreal: International Labour Office, 1943) 2.

<sup>144</sup> "Social Security Planning In Canada: The Marsh Report and Proposed Health Insurance Legislation" in the *International Labour Review*, Vol. XLVII, No. 5, May 1943 (Montreal: International Labour Office, 1943) 5.

1930s. "The Committee feels that a true democracy can be content with nothing less than what has become generally known as The Good Life for all the people.... That somehow as a result of this terrible struggle, this Good Life may be attained fully or in large part by the millions of plain folk who comprise the Democratic nations...Constantly we hear voiced the sentiment that this is what our boys are fighting for."<sup>145</sup> The federation called for "a comprehensive and all-inclusive plan of Social Security for all citizens...covering unemployment, health, accidents, marriage, childbirth, allowance for children and retirement for the aged."<sup>146</sup> And they looked to Ottawa to deliver this package.

Other groups wanted to strengthen the resources of the provinces in key areas in the post-war era. The Canadian Congress of Labour wanted more assistance for the provinces, which were responsible for education. In a memorandum to Ottawa that summarized their members' views, the CCL explained: "The wide diversity in educational standards, in text books, and curricula in Canada was regarded as a source of disunity... the Federal Government should make available to the provinces financial assistance which will enable them to raise educational standards to the highest possible level."<sup>147</sup>

Federal officials knew that they were in a sticky situation, trapped between the aspirations of many Canadians and the constitutional provisions for strong provincial identities. In December 1943, an unsigned Bank of Canada memo on post-

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<sup>145</sup> Canadian Teachers' Federation, *Education: The Keystone of Democracy, Report of the Reconstruction Committee of the Canadian Teachers' Federation*, LAC, MG 28, Vol. 11, p. 7.

<sup>146</sup> CTF IBID, page 11.

<sup>147</sup> Memorandum submitted to the Dominion Government by the Canadian Congress of Labour, April 24, 1945. LAC, MG28, Vol. 171. p. 3.

war provincial finance summarized Canada's plight: "It seems clear that the provinces cannot finance any major extension of welfare services out of their own resources."<sup>148</sup> This was an important recognition of the link between provincial fiscal equity and the provision of social security.

Worse, if the tax-rental agreements with their fiscal-need grants ceased to operate, some provinces would "find it difficult or impossible to finance even the present level of services."<sup>149</sup> This would present a danger to social cohesion: "Welfare, like prosperity, or peace, is indivisible."<sup>150</sup> Presciently, the memo suggested one of two courses: "Transfer the constitutional responsibility for certain welfare services (such as health insurance?) from the provinces to the federal government," which would require constitutional amendment.<sup>151</sup>

Or, more importantly, Ottawa could work out a system to transfer federal funds to the provinces "on the basis of need, which will provide adequate checks against misuse of funds but will not encroach upon the essentials of provincial autonomy."<sup>152</sup> This course could be equally fraught – because equalizing payments could also damage social cohesion if they were improperly balanced. The memo's author captured the dilemma:

If applied on too large a scale [they] would pose serious political problems of a continuing character. It would be difficult to define welfare services in sufficiently objective and specific terms, and determine their cost closely enough, to make effective supervision of the relevant provincial expenditures possible. But unless this

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<sup>148</sup> "Post-War Provincial Finance," unsigned memorandum of December 10, 1943, Bank of Canada Archives, Research Fonds, File 28-500, Volume 1, p. 1.

<sup>149</sup> "Post-War Provincial Finance," p. 8.

<sup>150</sup> "Post-War Provincial Finance," p. 12.

<sup>151</sup> "Post-War Provincial Finance," p. 16.

<sup>152</sup> "Post-War Provincial Finance," p. 16.

could be done, provincial governments would be in a position to determine the expenditure of large sums of money which they did not have to take the onus of raising from their electors. A basically unhealthy situation of this sort could have many undesirable consequences. For example, it would obviously enhance the ability of regional groups to block legitimate national policies if they so desired.<sup>153</sup>

Once again, no one dared to raise the prospect of non-conditional transfers to the poorer provinces to meet their fiscal requirements. And no one had suggested that such transfers should be linked to revenue-raising capacity as opposed to spending needs. Genuine equalization payments were still not on the federal agenda. But the chorus of demands from social reformers was growing. The Montreal local of the National Council of Women, for one, implored civic governments to ask Ottawa for a “greatly expanded” housing program.<sup>154</sup> Such groups had not yet created implicit coalitions across classes to exert power resources.<sup>155</sup>

But Mackenzie King did not need a sign from the heavens to discern the threat to his political stability. In August 1943, the social democratic Co-Operative Commonwealth Federation (CCF) became the official opposition in Ontario when the Conservatives won the provincial election. That same month, the CCF snared two of four seats in federal by-elections. In September 1943, a Gallup Poll showed that the CCF held a one-percentage-point lead over both the Liberals and the

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<sup>153</sup> “Post-War Provincial Finance,” pps. 16-17.

<sup>154</sup> Montreal Local Council, Resolutions of the National Council of Women, LAC, MG28, Series 125, vol. 85. P. 3.

<sup>155</sup> Danish sociologist Gøsta Esping-Andersen views power-resources as the key to political influence: that is, combinations are “more decisive” than the power resources of any single class. Gøsta Esping-Andersen, “The Three Political Economies of the Welfare State” in *Power Resources Theory and the Welfare State: A Critical Approach* (Toronto: University of Toronto Press, 1998) 145.



Conservatives.<sup>156</sup> In June 1944, former Parliamentarian T. C. Douglas and the Co-Operative Commonwealth Federation (CCF) became the first social democratic government in Canada when the party won the Saskatchewan election.

Partly in response to such apparent impatience among the electorate, the Prime Minister opted to deliver direct transfers to individual Canadians through a program of Family Allowances. Cash payments would go to families with children, especially large families, providing income maintenance. That would relieve pressure from labour groups to drive up wages, fueling inflation. As well, tucking cash in the pockets of low-income consumers would increase employment while allowing, and often forcing, women to leave their wartime jobs. King was already fretting about the transition from war to peace. "Economic policies now dominated social welfare issues," observes historian Doug Owram.<sup>157</sup>

In his diary, King emphasized the connection, describing a cabinet meeting with Deputy Finance Minister W. C. Clark in January 1944: "He made a very fine presentation, stressing among other things how serious might be the solution of some other questions, e. g. relief, housing and the like, unless family allowances measure were introduced. He also touched upon the necessity of this measure if wage stabilization and price ceiling were to be maintained."<sup>158</sup>

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<sup>156</sup> Jeff Keshen, "Getting It Right the Second Time Around" in *The Veterans Charter and Post-World War II Canada*, eds. Peter Neary and J. L. Granatstein (Montreal & Kingston: McGill-Queen's University Press, 1998) p. 66.

<sup>157</sup> Doug Owram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945*. p. 312.

<sup>158</sup> Diary of William Lyon Mackenzie King, Thursday, January 13, 1944.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=26408>

But the ever-cautious King was wary of firm commitments to health insurance. Even after Tommy Douglas and his CCF won the Saskatchewan election on June 15, 1944, the Prime Minister remained “uneasy about the financial ramifications of health insurance.”<sup>159</sup> In the fall of 1944, he declined to call a Dominion-Provincial Conference that would consider the two draft bills on health care from the Advisory Committee on Health Insurance, arguing that he should wait until after the next federal election. In January 1945, in an unusual Speech from the Throne that *closed* the session in anticipation of an election, Ottawa again repeated its intention to adopt health insurance as soon as “suitable arrangements” could be made with the provinces at a post-election Dominion-Provincial Conference.<sup>160</sup> King’s “strategic delay” would buy time – and ensure that those ambitious plans started to lose momentum.<sup>161</sup>

But King could not wholly relax. The Prime Minister scraped through the June 1945 federal election. The CCF won 28 seats, however, with 15.6 per cent of the popular vote. That was less than many party stalwarts had expected after Douglas’ win in Saskatchewan – but King understood that the threat had not gone away.

### **Keynesian Policies Gain Credence**

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<sup>159</sup> David Naylor, *Private Practice, Public Payment: Canadian Medicine and the Politics of Health Insurance 1911-1966* (Kingston and Montreal: McGill-Queen’s University Press, 1986. p. 131.

<sup>160</sup> Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, August 6, 1945. Dominion-Provincial Submissions and Plenary Conference Discussions (Ottawa: Edmond Cloutier, Printer to the King’s Most Excellent Majesty, 1946) p. 88

<sup>161</sup> David Naylor, *Private Practice, Public Payment: Canadian Medicine and the Politics of Health Insurance 1911-1966* (Kingston and Montreal: McGill-Queen’s University Press, 198. p. 132.

There was another factor at play as Ottawa considered its post-war world: The Keynesians were edging into control within the Government Generation. Keynes himself visited Canada three times in 1944-1945. His former students at Cambridge University – future deputy finance minister Robert Bryce and future assistant deputy finance minister A. F. W. Plumptre – were attracting respectful attention when they spoke about his views in Ottawa.

Even those who had not formally embraced the doctrine now realized, as Owram notes, that under-employment was not self-correcting in capitalist economies.<sup>162</sup> Not only could direct federal transfers to individuals foster social cohesion, they could also promote economic vitality and consumer demand during the expected post-war downturn. Federal spending could moderate the effects of the expected downturn. (It is important to note, however, that there would be “but limited use of the Keynesian instruments in the period prior to the Korean War. Aggregate demand conditions were healthy after the war.”)<sup>163</sup>

But what about the glaring fiscal inequalities among governments that could plague social stability as the war inched toward an end – and the tax rental agreements concluded? What would happen if Ottawa lost control of that huge pot of tax revenues that could be useful in a downturn? In May 1944, Ottawa tapped its best resource on Dominion-Provincial financial relations to handle such problems: it

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<sup>162</sup> Doug Owram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945*. p. 295. Owram quotes J. F. Parkinson, “Some Problems of War Finance,” in *The Canadian Journal of Economics and Political Science*, 6:3. August 1940, 415.

<sup>163</sup> Robert M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough, On.: broadview press, 1987) p. 70.

appointed Alex Skelton as the Secretary of a committee to prepare for a post-war Dominion-Provincial Conference.

Skelton worked fast. Within a month, he had produced an eleven-page memorandum, which summarized the changing world for people and governments. “The war has greatly expanded our administrative capacity and general ‘know-how’ of taking effective preventive measures against some forms of economic distress which were formerly considered to be acts of God,” he wrote.<sup>164</sup> Government should “for economic reasons, [be] thinking of the distressed citizen as a consumer and potential producer as well as for social reasons (thinking of him as a human being).”<sup>165</sup>

In turn, the provinces “must be in a position to provide roughly comparable services to their residents with no great disproportion in their respective burdens of taxation.”<sup>166</sup> Skelton called for “special assistance for financially weaker provinces” – *as long as* Ottawa retained control of those three tax fields to ensure that the Keynesian goals of “full employment, high national income, and social security programmes are to be developed on an effective scale.”<sup>167</sup>

The bottom line was clear: Ottawa should keep the revenue – and provide equalizing compensatory grants. It should assume more responsibility for social programs such as training, unemployment and health services, bearing in mind the

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<sup>164</sup> Queen’s University Archives, W. A. Mackintosh Fonds, Box 3, file 76. p.10.

<sup>165</sup> D. A. Skelton, “Dominion Preparations for Dominion-Provincial Conference,” June 15, 1944, p. 8.

<sup>166</sup> D. A. Skelton, “Dominion Preparations for Dominion-Provincial Conference,” June 15, 1944. Queen’s University Archives, W. A. Mackintosh Fonds, Box 3, file 76. p. 1.

<sup>167</sup> D. A. Skelton, “Dominion Preparations for Dominion-Provincial Conference,” June 15, 1944, p. 3.

“economic value of adequate social security measures in maintaining consumption.”<sup>168</sup> But the federal government also had to sweeten the pot considerably when it sought to renew the tax-rental deals: “Provincial governments will require considerably more financial margin” to fulfill their expanding post-war social and economic roles; they had to be put in a “comfortable financial position.”<sup>169</sup> Skelton could not give up on the centralist approach to inequality in the Rowell-Sirois Royal Commission report and the tax-rental deals. But he did understand that fiscal inequality among provincial governments was the greatest barrier to the expansion of social security.

While Allied troops fought their way through Europe and across the Pacific Islands during the winter of 1944-1945, Finance Ministry bureaucrats wrestled with those crucial issues. The wartime Economic Advisory Committee had already turned its attention to peacetime. By early May 1945, the war in Europe was over. Two months later, Robert Bryce, who was then secretary to the EAC’s subcommittee on reconstruction problems, outlined federal fiscal policy for the upcoming Dominion-Provincial Conference.

Bryce, who would later become the prestigious Clerk of the Privy Council, had a bedrock assumption: “Some level of government must take final responsibility for maintaining a high level of employment.”<sup>170</sup> The bureaucrat, who had fallen under

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<sup>168</sup> D. A. Skelton, “Dominion Preparations for Dominion-Provincial Conference,” June 15, 1944, p. 5.

<sup>169</sup> D. A. Skelton, “Dominion Preparations for Dominion-Provincial Conference,” June 15, 1944, p. 11.

<sup>170</sup> “Points For Inclusion In A Statement On Dominion Fiscal Policy And The Importance To It Of The Dominion-Provincial Arrangements Proposed,” signed RBB

the influence of John Maynard Keynes at Cambridge University in the 1930s, added that, in times of economic downturn, Ottawa “could speed up programs of national development and useful public investment to take up the slack.... the Dominion must expect, and be able to manage, substantial deficits at such periods.”<sup>171</sup>

There were other pressures. Bryce maintained that Ottawa had three “generally agreed” social objectives, including old-age pensions, family allowances and “large grants to the provinces to provide health insurance benefits.”<sup>172</sup> But taxes could not be sky-high: The Dominion had to balance “equity or fairness” with “the effects of taxes on incentives – production and employment.”<sup>173</sup> If this were done properly, Ottawa would “maintain prosperity within a modern, progressive and democratic society.” As Bryce noted significantly: “[Ottawa] cannot hope to succeed if it must contend and compete with other governments imposing taxes of the same kind on the same incomes or businesses.”<sup>174</sup> There it was: Ottawa wanted to keep corporate and personal income tax revenues and succession duties after the war – in return for continued transfers. Non-conditional equalization payments that supplemented tax revenues for the poorer provinces would remain a long way off.

Almost from the start, that plan to keep control of those three pivotal sources of tax revenue would disrupt social cohesion among the provinces. And, as I will show,

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(This was Robert Broughton Bryce), July 9, 1945. Queen’s University Archives, W. A. Mackintosh Fonds, Box 3, file 70. p.1.

<sup>171</sup> “Points For Inclusion In A Statement On Dominion Fiscal Policy And The Importance To It Of The Dominion-Provincial Arrangements Proposed,” p. 2.

<sup>172</sup> “Points For Inclusion In A Statement On Dominion Fiscal Policy And The Importance To It Of The Dominion-Provincial Arrangements Proposed,” p. 1.

<sup>173</sup> “Points For Inclusion In A Statement On Dominion Fiscal Policy And The Importance To It Of The Dominion-Provincial Arrangements Proposed,” p. 3.

<sup>174</sup> Ibid, p. 3.

it would threaten the identity of more powerful provinces – particularly Quebec and Ontario – for radically different reasons.

### **The War Ends in Australia and Canada**

The Australians were also working on post-war planning – and the Canadians were following *their* efforts. The Bank of Canada Archives contain a summary of an address on post-war planning that Australian Post-War Reconstruction Secretary H. C. Coombs delivered to the Australian Institute of Political Science during the summer of 1944. Coombs – who was an economist and the most important civil servant of his generation – had a prescient warning for his listeners. “There is a great danger that when the war itself is over we will be tired by the mental and spiritual strain of years of war and will be unwilling to strive further,” he declared. “There is a danger that...when we realize that we have gained only the opportunity to work for these objectives, there will be disillusion, and cynicism.”<sup>175</sup>

The situation was challenging. The wartime willingness to make radical changes could “melt in the face of criticism of interests adversely affected...we will not be ‘allowed’ to have the changes which alone can make fruitful the victory won.” But social cohesion was at stake. Australian society was “war weary and to some extent psychologically unstable, but nevertheless anxious for change and willing to be inspired into social unity for a common purpose.”<sup>176</sup> The first objective should be “a

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<sup>175</sup> “The Economic Aftermath Of War”: Summary of Address by H. C. Coombs, The Summer School of the Australian Institute of Political Science, 1944. Bank of Canada Archives, International Department Fonds, File 4E-110, volume 1, p. 4.

<sup>176</sup> “The Economic Aftermath Of War”:, p. 5.

high and stable level of employment.”<sup>177</sup> As Coombs noted: “The history of the depression years completely destroyed the belief that insecurity is an effective stimulus to endeavor.”<sup>178</sup> Government had an important role to play – if only to preserve social and economic stability.

By early August, as the war in the Pacific dragged on, *The Globe and Mail* warned that Dominion-provincial relations were about to resume their often-prickly course: “Expect Ottawa To Ask Extended Tax Control.”<sup>179</sup> That oblique headline was shorthand for Ottawa’s decision to ask for a renewal of the tax-rental agreements with the provinces as its long-planned Dominion-Provincial Conference opened. The delegates believed that Ottawa was “adamant” on the “assumption of sole taxing powers...in effect, it [that assumption] would amount to a continuation of the wartime tax agreements.”<sup>180</sup>

*The Globe and Mail*’s Ottawa correspondent reported that the Premiers were guardedly prepared to co-operate. “[But] There is no suggestion any one Province is prepared to fall within the Dominion lap and take any old thing that is offered in return. Every Province is jealous of its autonomy. There is definite opinion that without some fiscal independence, there can be little or no provincial autonomy.”<sup>181</sup> It is tempting to speculate that Ottawa could have saved itself more than a decade of difficulties if it had heeded that warning – and resisted the continued temptation to centralize revenues after the war ended.

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<sup>177</sup> “The Economic Aftermath Of War”; p. 5.

<sup>178</sup> Ibid, p. 6.

<sup>179</sup> Kenneth C. Cragg, “Expect Ottawa To Ask Extended Tax Control,” in *The Globe and Mail*, on Monday August 6, 1945. p. 1.

<sup>180</sup> Kenneth C. Cragg, “Expect Ottawa To Ask Extended Tax Control,” p. 1.

<sup>181</sup> Kenneth C. Cragg, “Expect Ottawa To Ask Extended Tax Control,” p. 1.



### **The Marathon Dominion-Provincial Conference 1945-1946**

Like most dominion-provincial conferences, the one in 1945-1946 is now virtually forgotten by most Canadians. On the opening day of the Conference, Prime Minister King told the First Ministers that their gathering “may well be the most important Canadian Conference since Confederation.”<sup>182</sup> It was certainly the longest. The Premiers met for five days in plenary sessions from August 6 to August 10. They created a coordinating committee that met on November 26, December 5, December 29, January 8-9 of 1946, January 24, January 26, January 28, and April 25. Then they met again in plenary session for five days from April 29 to May 3, 1946. The record of their federal-provincial statements – which does not include all policy documents – spans 624 large pages.

They accomplished nothing. Their talks were inconclusive. They made virtually no progress on the big issues of provincial inequality, social security and social cohesion that were facing the nation. There was little doubt about where the individual Premiers stood. The gaps between the Have Provinces of Ontario and British Columbia and the Have Not Provinces such as Nova Scotia were enormous – and they did not narrow over the course of the nine-month ordeal. Ontario was the only province to present a detailed proposal with a funding formula to counter the federal proposal – although other provinces would outline their aspirations and their bottom lines, often at length.

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<sup>182</sup> Prime Minister Mackenzie King, Plenary Session of the Dominion-Provincial Conference, August 6, 1945. (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 7.

In a sign of the battles to come, Quebec Premier Maurice Duplessis firmly defended his province's constitutional right to collect and control its own revenues. Quebec had cooperated in wartime. But it would not cede that right in peacetime, especially not for the limited per-capita amounts in compensation that King offered. Quebec needed to spend money on roads, health, education, agriculture and settlement, and the provinces "are fit to deal with their own affairs."<sup>183</sup> He had no objection to federal help for the Maritimes, and he would work with them to secure that help: "The Maritime provinces contributed a lot to the weal of this country, in every walk of life and in every human endeavor."<sup>184</sup>

But he would not allow the continued centralization of revenues – because that would weaken his province's constitutional rights: "Temporary payments, or so-called generous subsidies, cannot compensate for permanent rights, and once those rights are impaired or abandoned the results may be disastrous...The province of Quebec is always in favour of cooperation, always against complicity."<sup>185</sup> That stand, which would endure for the next decade, ensured that Quebec played a pivotal role in the design of the formula for equalization.<sup>186</sup>

The 624-page transcript traces an arc from initial cordiality to outright incivility during the final days. On May 2, 1946, New Brunswick Premier J. B. McNair even

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<sup>183</sup> Quebec Premier Maurice Duplessis, Plenary Session, May 2, 1946. p. 531.

<sup>184</sup> Quebec Premier Maurice Duplessis, Plenary Session, May 2, 1946. p. 529.

<sup>185</sup> Quebec Premier Maurice Duplessis, Plenary Session of the Dominion-Provincial Conference, May 1, 1946. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 528.

<sup>186</sup> David Milne, "Equalization And The Politics Of Restraint" in *Equalization: Its Contribution to Canada's Economic and Fiscal Progress*, eds. Robin W. Boadway and Paul A. R. Hobson. p. 190.

mused that the Fathers of Confederation “never envisaged the possibility that eighty years after the Union was created, at a meeting such as this, the citizens in the different provinces would be talked about as though they were so many different peoples.”<sup>187</sup> The First Ministers had started with so much optimism, mulling expansive federal proposals for old-age pensions, unemployment assistance and health insurance in Ottawa’s Green Paper. In the end, federal Health Minister Brooke Claxton lamented that Ottawa had presented “a plan which was comprehensive and which aimed to deal with the main needs and desires of the Canadian people. Unfortunately in the discussion, too much emphasis has been allowed to be placed on the tax provisions.”<sup>188</sup>

Indeed, that was exactly what happened – but it was understandable. The Premiers could not agree on the provision of social programs until they established their budgetary bottom lines. How much revenue would they surrender in response to Ottawa’s offer to rent their corporate and personal income taxes and their succession duties? How much would they receive in return? And, most crucially, would Ottawa recognize the fiscal needs of the poorer provinces?

The ghost of the Rowell-Sirois report and the Australian Commonwealth haunted the proceedings. It remains astonishing how many First Ministers cited the Commonwealth Government’s annual grants to all states for wartime tax rentals

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<sup>187</sup> New Brunswick Premier J. B. McNair, Plenary Session of the Dominion-Provincial Conference, May 2, 1946. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) p. 561.

<sup>188</sup> Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, May 3, 1946. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) p. 621.

along with the Commonwealth Grants Commission's allocations based on fiscal need to the poorer ones. They would often brandish varying figures, contradicting each other on exchange rates and Australian taxes, to buttress their arguments.

During the final week, for one, Ontario Premier George Drew maintained that the Commonwealth had just renewed its agreement to rent all state income taxes in return for 18.5 per cent of the revenues, which worked out to £40 million for the states or \$200-million Canadian dollars for a population of seven-and-a-half million people. That was "a very much larger percentage of [Commonwealth] income tax."<sup>189</sup>

Federal Health Minister Brooke Claxton countered that Australia's system was far different from the Canadian system: "The practice has been in Australia for the states to raise a very large percentage of their revenue from income tax...the proposals made by the federal government here are reasonable, fair and comprehensive, having regard to the relative circumstances in Australia and Canada."<sup>190</sup> Drew should acknowledge the necessity of comparing "the whole situation": the Australian states raised far more of their revenues from income taxes than the Canadian provinces so the compensatory grants had to be larger; the Commonwealth raised funds from other sources such as taxes on real estate; and

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<sup>189</sup> Ontario Premier George Drew, (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 530.

<sup>190</sup> Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, May 2, 1946. (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 531.

the current rate of exchange put the size of those grants at \$144 million Canadian, not \$200 million Canadian.<sup>191</sup>

A day later, Finance Minister J. L. Ilsley argued that the Commonwealth had increased its grants to the states by only seventeen per cent under the new rental deals whereas the Dominion proposals increased grants by fifty-nine per cent. Nova Scotia Premier Angus L. Macdonald pointedly interjected that the Commonwealth Government was “still making [additional] grants under the Commonwealth Grants Commission.” And then he gave the exact 1944-1945 figures for South Australia, Western Australia and Tasmania.<sup>192</sup> Drew then maintained that land taxes constituted only one per cent of Australian Commonwealth revenues.<sup>193</sup> Claxton returned to the topic in what was virtually the last hour. Unlike Canada, the Commonwealth Government had established “a very wide, almost comprehensive system of social security for which it pays.”<sup>194</sup> Claxton was aware that the federation was falling behind in the provision of social care for its citizens.

And that was just one testy episode in an ongoing Conference theme.

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<sup>191</sup> Health Minister Brooke Claxton to Ontario Premier George Drew, Plenary Session of the Dominion-Provincial Conference, May 2, 1946. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) pps. 580-581.

<sup>192</sup> Nova Scotia Premier Angus L. Macdonald to Finance Minister J. L. Ilsley, Plenary Session of the Dominion-Provincial Conference, May 3, 1946. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 585.

<sup>193</sup> Ontario Premier George Drew, May 3, 1946. *Dominion and Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 592.

<sup>194</sup> Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, May 3, 1946. (Ottawa: Edmond Cloutier, Printer To The King's Most Excellent Majesty, 1946) p. 619,

### **The Conference Slips Into Deadlock**

Perhaps the talks were doomed from the outset – because of the federal desire to retain fiscal control. But the yearning for the good life after the bitter war was also palpable. Prime Minister King launched the proceedings on August 6 with an ambitious call for a “progressive and secure standard of living based on remunerative employment for all who are able and willing to work” coupled with “a comprehensive system of social insurance, partially federal and partially provincial.”<sup>195</sup> His government’s Green Paper on social policy included per capita grants for health insurance to cover family doctors’ bills, visiting nursing services and hospital care; health grants for public health and preventative medicine; universal old-age pensions for those who were seventy and over; and unemployment assistance to those who had exhausted their UI benefits.

It was an ambitious package – that might take time to implement. A secret federal brief for the Dominion-Provincial Conference, which is inscribed “As Submitted to Cabinet,” noted flatly: “It is significant that the nations which have not adopted health insurance include Australia, the United States and Canada. *All three of these nations are federations*, where the power to deal with health is a matter of local

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<sup>195</sup> Prime Minister Mackenzie King, Plenary Session of the Dominion-Provincial Conference, August 6, 1945. (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) pps. 5 and 6.

concern, of the states and provinces.”<sup>196</sup> King was probably among the few who suspected that it would take decades to implement fully.

But his attention was elsewhere. At noon on August 6, he received a note from Munitions Minister C. D. Howe, which stated that a bomb had dropped. The Prime Minister confirmed the import of the word “bomb” with Howe – but he remained silent until a wire-service report confirmed U. S. President Harry Truman’s statement. At 1 p.m., he adjourned the proceedings for lunch, explaining that he had a “world shaking announcement.”<sup>197</sup> And then he told them about the atomic bomb on Hiroshima. There was “dead silence.”<sup>198</sup> It was a civic holiday in Ontario. There were no newspapers. So, when the session resumed that afternoon, King read statements from politicians around the world, including one from former British Prime Minister Winston Churchill. The news “created mixed feelings in my mind and heart. We were now within sight of the end of the war with Japan.”<sup>199</sup>

The next day, Finance Minister J. L. Ilesley spelled out Ottawa’s fiscal plans. Federal post-war obligations were onerous: Ottawa had to finance substantial deficits “when necessary”; it had to adjust the tax system to foster investment and employment; it had to offer “a dependable financial basis to all provinces”; and, most important, *it had to bring balance*: “Post-war financial arrangements ...should make possible at least an adequate minimum standard of services in all provinces while not denying

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<sup>196</sup> “Social Security” in The Dominion Proposals for High Employment and National Welfare, Secret, Dominion-Provincial Conference on Reconstruction. August 1945, LAC, RG2, Series 18, Vol. 37, File: D-40 1945 (July-Aug) Pt. 2. p. 12. My italics.

<sup>197</sup> Diary of William Lyon Mackenzie King, Monday, August 6, 1945.

<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=28648>

<sup>198</sup> Diary of William Lyon Mackenzie King, Monday, August 6, 1945.

<sup>199</sup> Diary of William Lyon Mackenzie King, Monday, August 6, 1945.

to any provinces the advantages which its resources give to it nor the freedom to establish its own standards.”<sup>200</sup> It was an implicitly equalizing goal.

His approach was also unreservedly Keynesian: “In carrying out its [Dominion] employment policy it will at times be necessary for large deficits to be incurred while at the same time expenditures are being increased or taxation reduced in order to aid employment. If it is to carry deficits at times when they are necessary for the maintenance of employment and income, the Dominion should be in a position to recapture in periods of high employment and vigorous business activity revenue from rising incomes and profits.”<sup>201</sup>

The Finance Minister offered to implement this approach in return for continued control over personal and corporate income tax revenues and succession duties. In compensation, Ottawa dangled per-capita grants of \$12 to every province, based on the 1941 census, which would be increased or decreased with the value of the Gross National Product.<sup>202</sup>

Harmony proved elusive. At the heart of the discussions, running through every session, was the debate around how to handle fiscal need. In his lengthy opening statement, Manitoba Premier Stuart Garson stipulated that the federal government had to increase its per capita grants – and provide national adjustment grants to

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<sup>200</sup> Finance Minister J. L. Ilesley, Plenary Session of the Dominion-Provincial Conference, August 7, 1945. (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) pps. 111-112.

<sup>201</sup> Finance Minister J. L. Ilesley, Plenary Session of the Dominion-Provincial Conference, August 7, 1945, p. 113.

<sup>202</sup> Finance Minister J. L. Ilesley, Plenary Session of the Dominion-Provincial Conference, August 7, 1945. (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) p. 115.



poorer provinces “on the basis of fiscal need.”<sup>203</sup> Saskatchewan Premier Tommy Douglas maintained that social security measures “should be raised to a minimum standard across Canada in order that no Canadian shall be penalized or discriminated against because of the geographical area in which he resides. That to us is fundamental.”<sup>204</sup>

And so it continued. Some provinces simply wanted a higher per-capita grant for every government. In late November, Alberta Premier Ernest Manning told the Conference Coordinating Committee that the proposed per capita grant to the provinces “is inadequate. The per capita grant is insufficient to meet post-war requirements.”<sup>205</sup> Other provinces wanted a version of the National Adjustment Grants that the Rowell-Sirois Commission had proposed for poorer provinces. The New Brunswick government asked for “a special allowance or fiscal need subsidy” that would allow local and provincial services “to be raised to the average standard prevailing throughout Canada without raising internal taxation beyond the general level in all provinces.”<sup>206</sup> The Nova Scotia government demanded that Ottawa recognize the principle of fiscal need in the allocation of grants – and then set up a

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<sup>203</sup> Manitoba Premier Stuart Garson, August 7, 1945. Plenary Session of the Dominion-Provincial Conference, May 2, 1946. (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) p. 161.

<sup>204</sup> Saskatchewan Premier T. C. Douglas, August 7, 1945, Plenary Session of the Dominion-Provincial Conference, May 2, 1946. (Ottawa: Edmond Cloutier, Printer To The King’s Most Excellent Majesty, 1946) p. 179.

<sup>205</sup> Brief submitted by the Government of Alberta, presented by Premier Ernest C. Manning, to the Coordinating Committee, November 26, 1945. p. 209.

<sup>206</sup> Submission of the Government of New Brunswick on Certain Proposals of the Dominion, January 24, 1946. p. 313.

permanent finance committee similar to the Australian Commonwealth Grants Commission to calculate those grants.<sup>207</sup>

The Premiers were deadlocked. In early January, Ontario Premier Drew tabled a counter-proposal: the wartime tax agreements should lapse without renewal; the provinces should retain their tax revenues to foster social security and economic development; and ten per cent of provincial tax revenues from “full-scale post-war production” should go into a National Adjustment Fund, which a Dominion-Provincial Economic Board would oversee.<sup>208</sup> Drew reasoned that, whenever federations move toward domination from the centre, “despotism has followed sooner or later.”<sup>209</sup> Under his plan, the poorer provinces “which have not that wide latitude and flexibility of taxing powers possessed by certain other provinces will not be without some freedom to meet unusual conditions which because of the limited aspect of their economy – I mean limited in the particular nature of the economy – do present special problems.”<sup>210</sup>

But the Premier had put the cat among the provincial pigeons. Saskatchewan Premier Douglas complained that Ontario’s proposals “do not represent fiscal need at all, but are rather a source of federated poor-box, into which contributions will be made by the provinces, and the poor relations will line up at Christmas time to get a handout from the fund.”<sup>211</sup> Manitoba Premier Garson was even more emphatic. “His [Drew’s] is the viewpoint of a rich, powerful and populous central province. Banking

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<sup>207</sup> Submission by the Government of Nova Scotia, January 26, 1946. pps. 316-317.

<sup>208</sup> Submissions by the Government of the Province of Ontario, January 8, 1946.

<sup>209</sup> *Submissions* [sic] *by the Government of the Province of Ontario*, January 1946, LAC, RG47, Vol. 80, p.7.

<sup>210</sup> Ontario Premier George Drew, April 29, 1946. p. 408.

<sup>211</sup> Saskatchewan Premier T. C. Douglas, April 30, 1946. p. 479.

companies, banks, insurance companies, loan companies, trust companies, flour mills, steel companies and the newspapers, which function and do business in the province which I represent are all owned and controlled, and they have their head office in his province.”<sup>212</sup> Ontario was a fat cat.

Drew was outraged. “The overwhelming majority of every dollar produced in Ontario is made by the work, the brain and the vigour of the people of Ontario,” he declared, arguing that more than 85.5 per cent of the federal tax revenues collected in Canada came from Ontario, Quebec and British Columbia.<sup>213</sup> “Our responsibility in the [tax rental] settlement reached on behalf of the people of Ontario must have due regard for the heavy share which will come from the people of Ontario.”<sup>214</sup>

When Ontario finally attached very complicated figures to its proposal – the province wanted Ottawa to withdraw from other tax fields as well – Finance Minister Ilsley was aghast. He complained that the plan would add \$100-million per year to Ottawa’s tab “as a minimum applied to all the provinces.”<sup>215</sup> Ottawa simply could not afford to pay for Drew’s proposal.

Ilsley also ruled out subsidies based on fiscal need as “the worst kind of subsidy” because the provinces would have to make the case for need based on a detailed examination of their spending policies and severity of taxation. “Surely fiscal need subsidies are subsidies; and they are subsidies much more undesirable from the

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<sup>212</sup> Manitoba Premier Stuart Garson, April 29, 1946. p. 427.

<sup>213</sup> Ontario Premier George Drew, May 1, 1946. P. 520-521.

<sup>214</sup> Finance Minister J. L. Ilsley, Plenary Session of the Dominion-Provincial Conference, August 7, 1945.

<sup>215</sup> Finance Minister J. L. Ilsley, May 1, 1946. p. 574.

standpoint of provincial independence than are fixed subsidies.”<sup>216</sup> Ilsley raised his offer to \$15 per capita – but that was where the federal offer would stay.

The First Ministers were at an impasse. They could not heal the breach between the richer and poorer provinces. Indeed, more than seven decades later, the Conference remains noteworthy because it re-emphasized, and probably deepened, the divisions among the Have and Have-Not provinces. Two of the nine provinces – Quebec and Ontario – retained their fierce objections to Ottawa’s proposals to extend the wartime tax rental agreements into peacetime. Quebec Premier Maurice Duplessis actually left before the start of the afternoon session on the last day in May 1946. As *Le Devoir* reported, his supporters planned an “enthusiastic reception” at the train station; one admirer praised “his defence of our provincial rights...without bending” at the Conference.<sup>217</sup>

Ontario Premier Drew was drawn into strongly worded debates with Saskatchewan Premier Douglas and Manitoba Premier Garson, Finance Minister Ilsley and Prime Minister King. The situation disintegrated to such an extent during the final days that Drew cited German Chancellor Adolf Hitler’s *Mein Kampf* to illustrate the dangers of centralizing revenues, and Duplessis declared that the federal proposals would give birth to “little Hitlers.”<sup>218</sup>

In the end, provinces disagreed with each other – and *all* provinces objected to the size of Ottawa’s proposed grants in any renewed tax rental agreements – even

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<sup>216</sup> Finance Minister J. L. Ilsley, May 1, 1946. p. 574.  
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<sup>217</sup> “Réception enthousiaste préparée pour M. Duplessis,” D. N. C. Québec, *Le Devoir*, Friday, May 3, 1946.

<sup>218</sup> Ontario Premier George Drew and Quebec Premier Maurice Duplessis, May 1, 1946. pps. 515, 530.

after Ottawa sweetened the per-capita pot. That included *those provinces that were already receiving extra grants for extra needs*. The idealistic Claxton was dashed:

It is important to realize..... that far from being 'Ottawa,' we who represent the Federal government here represent the people who elected us, represent them in just the same way and in exactly the same degree as do the representatives of the provinces. They represent the people of their provinces and we represent the people of all of Canada, of every province, of every part, and of every race. In these discussions sometimes it is very easy to refer to others as 'they'.<sup>219</sup>

Despite its extraordinary length, the Conference had failed. It adjourned on May 3, 1946 with little agreement on anything – and no firm date for a further meeting. The Premiers returned to their provincial capitals, nurturing grievances. Many delegates were anxious to pin the blame on others. Historian James Struthers blames Drew and latterly Duplessis for the impasse because both provinces wanted to regain their fiscal autonomy. As well, Ontario wanted to off-load “as many of its costs as possible onto the federal treasury and [to prevent]... raids by weaker provinces on its wealth.” He also cites historian Marc Gotlieb’s view that Ontario’s opposition was rooted in its tradition of responsibility for its own development and in its fiscal conservatism, “which remained deeply hostile towards and suspicious of the new Keynesian thinking within Ottawa.”<sup>220</sup>

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<sup>219</sup> Health Minister Brooke Claxton, Plenary Session of the Dominion-Provincial Conference, May 3, 1946. *Dominion-Provincial Submissions and Plenary Conference Discussions* (Ottawa: Edmond Cloutier, Printer to the King’s Most Excellent Majesty, 1946) 622.

<sup>220</sup> James Struthers, *The Limits of Affluence: Welfare in Ontario, 1920-1970* (Toronto: Ontario Historical Studies Series, 1994) p. 126.

In his Diary, King had two scapegoats. He blamed the Bank of Canada for its continued push to centralize revenues. The provinces would eventually wane in relative power, he concluded, but “that is still a long way off.”<sup>221</sup> Meanwhile, Ottawa should let the provinces resume control “over certain fields of taxation,” interfering only to maintain “certain standards.”<sup>222</sup>

Claxton, King added sourly, but probably sagely, “has pushed the social legislation to make too many commitments in the matter of social reform, particularly any commitments for legislation involving more in the way of taxation by a levy on all classes.”<sup>223</sup> Now, King noted, social legislation “is now in a way being cast to the winds.” He felt “neither elation nor depression... The failure to reach agreement is only part of the spirit of the times.... The world is full of hate and unrest and strife.”<sup>224</sup> King vowed to warn Finance Minister Ilsley against the imposition of further taxes: attention should be focused on veterans and immediate needs such as housing while deferring further social programs. In effect, Claxton had tried to go too fast in a difficult federation with conflicting provincial and social identities.

In the end, perhaps the principal reason for the failure was that the timing simply was not right. As historian P. E. Bryden notes, early post-war efforts “to provide a coherent system of equalization were destined to failure until two preconditions were met: the federal government began into tap into Ontario’s rich fiscal capacity,

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<sup>221</sup> Diary of William Lyon Mackenzie King, Friday, May 3, 1946.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=29527&>

<sup>222</sup> Diary of William Lyon Mackenzie King, Friday, May 3, 1946.

<sup>223</sup> Diary of William Lyon Mackenzie King, Friday, May 3, 1946.

<sup>224</sup> Diary of William Lyon Mackenzie King, Friday, May 3, 1946, p. 3.

and Ontario agreed on a political level to this form of redistribution.”<sup>225</sup> In effect, the Ontario economy had to generate more **revenue** for Ottawa – and for the provincial government – before sharing became acceptable. That was certainly one key reason for the *débat*.

### **The Australians Do Better**

The Australians had also faced problems when they considered post-war reconstruction. At a Commonwealth-State Conference during the autumn of 1942, Canberra asked for constitutional amendments to “enable a return to a stable peacetime footing.”<sup>226</sup> The states agreed to transfer fourteen legislative powers for such matters as commodity marketing and corporate regulation – for a trial period of not less than five years – but they would not consent to permanent constitutional amendments. Even that limited measure did not pass unanimously in the state legislatures. A follow-up referendum in August 1944 secured acceptance only in South and Western Australia. And that was the end of that initiative. A Bank of Canada memorandum on Australia concluded that there was an “underlying desire that the States shall remain sovereign states and that the federal government [in Australia] should remain weak.”<sup>227</sup>

But that unsigned post-war memorandum – which, based on internal indications, dates to the summer of 1946 – also examined the remarkable extent of Australia’s

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<sup>225</sup> P. E. Bryden, “The Obligations of Federalism” in *Framing Canadian Federalism*, eds. Dimitry Anastakis and P. E. Bryden (Toronto, University of Toronto Press, 2009) p. 76.

<sup>226</sup> “Post-War Planning in Australia”, Bank of Canada Archives, International Department Fonds, File 4E-110, volume 1. p. 1

<sup>227</sup> “Post-War Planning in Australia”, p. 4.

social security benefits. Prior to 1945-1946, the Commonwealth had transferred money into the National Welfare Fund for unemployment and sickness benefits, which began in July 1945, old-age pensions and child benefits. (Canberra had introduced the Child Endowment Act in 1941 to provide a small weekly payment to each citizen “who supported more than one child under 16 years of age, the sum being increased according to the number of children supported. There was no means test.”)<sup>228</sup>

The road to expand those social services was a little rockier. In 1938, Canberra had proposed a national health insurance scheme – but “the medical profession rejected the range of services to be covered and the proposed remuneration arrangements.”<sup>229</sup> The legislation was not implemented. In 1944, the Commonwealth Government had passed another law to cover the cost of prescription drugs – but pharmacists had challenged that law and it was found to be unconstitutional. The Hospital Benefits Act of 1945 survived a legal challenge: it subsidized public hospitals on the condition that they provided certain free services.

But the Commonwealth Labour Government was rattled by the High Court rejection of phamacare – and it was well aware that the public had new expectations of the state in the wake of the war. In 1946, it passed a constitutional amendment to transfer power over “pensions and social services of all kinds including medical,

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<sup>228</sup> Russel Ward, *The History of Australia: The Twentieth Century* p. 255.

<sup>228</sup> Russel Ward, *The History of Australia: The Twentieth Century* (New York: Harper & Row Publishers, 1977. p. 255.

<sup>229</sup> <https://federation.dpmc.gov.au/evolution-government-involvement-health-care>



dental and hospital benefits” to the Commonwealth Government.<sup>230</sup> The amendment faced ratification under the tough amendment process, which required approval “by an absolute majority of people and by a majority of the electors in a majority of the six States.”<sup>231</sup> More than 54 per cent of the electors and all six states approved the measure.<sup>232</sup> Starting in 1945-1946, the Commonwealth Government now collected contributions for social security along with payroll taxes to fund all health and social services, which included hospital care in public hospitals and the cost of medical prescriptions.

Australia was well ahead of Canada, which underlines the complications and sensitivities of provincial rights within the Canadian federation. The contrast with Canada – despite the failure to even temporarily transfer state powers to Canberra – was vivid. Australia had somehow managed the impossible for a federation: It had found a way to introduce health care insurance and pharmacare despite the strains of post-war adjustment.

But the major immediate post-war worry for the transition from hostilities to peace in Australia was now economic. The Bank of Canada rather smugly noted the Australian situation: “For some time at least the level of demand will be in excess of the resources available to produce goods and services and conflict will arise between investment goods or consumption goods, public investment or private. The belief is that a relatively high level of investment goods will in the long run contribute more to the maintenance of the standard of living than would the

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<sup>230</sup> Russel Ward, *The History of Australia: The Twentieth Century*, p. 276.

<sup>231</sup> Russel Ward, *The History of Australia: The Twentieth Century*, p. 72.

<sup>232</sup> <https://federation.dpmc.gov.au/evolution-government-involvement-health-care>

satisfaction of the full demand for consumption goods after the war.”<sup>233</sup> Australia opted to continue rationing and price controls until “a new balance” was achieved.<sup>234</sup>

In turn, the Australians examined Canada’s situation. In late May 1945, they noted that Ottawa was about to remove eighty per cent of the wartime controls on business and industry. But Munitions Minister C. D. Howe had warned that price controls would remain “for months, and maybe years...after the battles of Europe and Asia, we will still have the battle of inflation.”<sup>235</sup> In early September 1945, High Commission diplomats noted that Canada was reintroducing meat rationing – in order to share supplies with southern Europe, including Greece, Albania and Yugoslavia, “where very many deaths are still taking place due to starvation.”<sup>236</sup> Victory did not always bring social peace.

## Conclusion

In peacetime, Canada was no closer to equalization than it had been in 1941. And equalization was the remedy for provincial fiscal inequality – and for the huge holes in the social security network within the Canadian federation. Mackenzie King might have felt relief when he fended off the recommendations of the Rowell-Sirois report

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<sup>233</sup> “Post-War Planning in Australia”, Bank of Canada Archives, International Department Fonds, File 4E-110, volume 1. p. 36.

<sup>234</sup> “Post-War Planning in Australia.

<sup>235</sup> “Price Control In Canada: “May Stay for Years” in *The Sydney Morning Herald*, Tuesday, May 22, 1945. National Archives of Australia, Series A1066, Control symbol A45/1/3/1, Barcode 186955, n.p.

<sup>236</sup> “Meat For Europe, The [Canadian] Wartime Prices and Trade Board press release, Monday, September 10, 1945. National Archives of Australia, Series A1066, Control symbol A45/1/3/1, Barcode 186955, p. 2.

and the demands at the 1945-1946 Conference. He did so partly for financial reasons and partly to preserve political stability. He did not want to intrude permanently onto provincial turf without provincial consent, nor did he want to tamper with Quebec's distinct identity.

There was little expansion of the social safety net throughout the 1940s. That was partly because the powerful federal government could not contemplate the creation of genuine equalization: that is, *non-conditional* federal grants to the poorer provinces that were based upon an apparently neutral formula pegged to their revenue-raising capacity. Ottawa still wanted to centralize revenues, albeit apparently temporarily, to maintain control of the purse strings, to even out economic cycles – and to influence how the bulk of the money was spent.

In the post-war era, the Prime Minister emphasized spending on national reconstruction such as highways and the need for a strong defence against Communism – as opposed to spending on social programs – as a reason to centralize revenues.

But King remained caught between the defenders of provincial identity and the lobbyists for universal social programs, which included the still-weak power resources of national organizations, such as labour and women's groups, along with provincial premiers, such as Saskatchewan's T. C. Douglas. This time, however, the voices of the latter groups would be louder. The Rowell-Sirois report along with the 1945-1946 Conference had fueled the aspirations of many Canadians who espoused expanded social programs in *all* provinces.

The nation-building vision would not abate.

But, first, Ottawa would have to learn to let go.

## CHAPTER FIVE: The Compromise 1946-1957

After the Dominion-Provincial Conference fell apart in May 1946, Prime Minister Mackenzie King abandoned his Green Paper proposals to expand social security. He was relieved. He dutifully signed tax rental deals with seven of the nine provinces – only Quebec and Ontario refused to sign. And he ignored complaints from poorer provinces such as Saskatchewan about his abandonment of health insurance. In early 1948, after Health Minister Paul Martin warned King that the public was impatient with the **slow pace** of social progress, the Prime Minister offered grants to the provinces for health surveys, hospital construction and public health.

But King had reached his limits. He was unwilling to tread too heavily onto the provinces' constitutional turf, and he remained cautious about assuming more expensive and expansive responsibilities. He simply refused to commit the federal government to his Green Paper proposal to cover three-fifths of the cost of health insurance at an estimated \$150 million, arguing that the Premiers had to agree on the entire federal package. The promise of the post-war Good Life was at a standstill.

King's successor, corporate lawyer Louis St. Laurent, approached the provinces with leisurely aplomb. Eventually, in 1950, he called federal-provincial conferences to tackle the problem that had long plagued Canada's fractious federation: the nation's constitution remained an act of the British Parliament. Predictably, he got nowhere in his quest for patriation and an amending formula. Finally, St. Laurent shifted his focus. After unanimous provincial consent for a constitutional amendment, Ottawa instituted an expanded Old Age Pension, which it wholly funded, starting in January 1952.

But the Canada of the 1950s was different from the prewar federation. The gulf between the richer provinces such as Ontario and British Columbia and the poorer provinces such as New Brunswick and that distinctive newcomer Newfoundland, which joined the federation in 1949, was enormous. The richer ones were flexing their fiscal muscles, proclaiming their desire to use the bulk of their taxpayers' funds for *their* purposes, resentful of more sharing with other poorer governments or individual Canadians in other provinces. Meanwhile, social activists and Saskatchewan's socially activist Tommy Douglas wanted Ottawa to do more for their citizenry.

The tugs-of-war became ominous. Both Ontario and Quebec were wary of Ottawa's intrusions onto provincial constitutional turf: they wanted to retain their tax revenues for their own use. Quebec Premier Maurice Duplessis also resisted St. Laurent's program to transfer per-capita grants directly to universities. And Duplessis flatly refused to sign the next tax rental deal – when even Ontario signed it – despite the fact that his government's uncompromising stance meant the loss of significant compensatory federal grants. Amid a dangerously escalating showdown with Quebec over tax collection in 1953, St. Laurent backed down.

Then, in 1954, he acted. As the former Francophone Counsel for the Rowell-Sirois Commission, the Prime Minister understood that he had to institute a non-conditional version of the National Adjustment Grants for the poorer provinces – including those that had not signed tax rental accords. And he understood that those grants could not be based upon an intrusive federal examination of provincial spending. Otherwise, the resentments within the federation would escalate

dramatically: Quebec would keep losing money – and the poorer provinces such as Newfoundland would never be able to pay for expanded social programs.

Instead, Ottawa focused on provincial revenues as the basis for the formula. Those figures were far more accessible – and Quebec could not protest. As political scientist David Milne underlines: “Analysts must acknowledge the truly pivotal role played by Quebec in the final achievement of equalization as a principle of the federation, unfettered by any concession over the fiscal autonomy of the provinces.”<sup>1</sup>

Non-conditional equalization grants – first based upon the average per-capita amount of key tax revenues that were collected in the two richest provinces – allowed the poorer provinces to pay for social programs that were roughly equivalent to those in the richer provinces at roughly equal levels of taxation. It was a necessity: otherwise, Canadians in provinces without adequate health care or social assistance or post-secondary education would move to provinces where better services were provided. Unemployment Insurance allowed workers to stay in place, to look for suitable work in their home province. In contrast, the lack of universal social programs could force workers to abandon their hunt for work, and flock to richer provinces in search of care.

Inequality in social programs within a federation carries a high price tag. As political scientist Douglas M. Brown notes: “Equalization enhances national economic efficiency by helping to ensure that labour migration occurs for reasons

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<sup>1</sup> David Milne, “Equalization And The Politics Of Restraint” in *Equalization: Its Contribution to Canada’s Economic and Fiscal Progress*, eds. Robin W. Boadway and Paul A. R. Hobson (Kingston: John Deutsch Institute For The Study Of Economic Policy, Queen’s University 1997) p. 190.

which contribute to economic growth and development, i. e. for improved wages or return on capital, not for access to better public services.”<sup>2</sup>

I will show how the advocates of provincial rights jostled against the proponents of expanded social security during the post-war decade. As I have said previously, this will be a state-centred approach – of necessity – but I will also examine the pressure that other groups brought to bear in these debates. As political scientist Richard Simeon has observed, states are “actors” in the great debates over policy. “It is their political leaders and civil servants who formulate, express, and fight for their government’s interests...[but] the governments do not fight in a vacuum. They must bear in mind other groups – audiences – which form their environment and on which they depend for support.”<sup>3</sup> That is, governments respond to pressures from groups and individuals – but they also lead when they anticipate a pressing social or economic need.

With equalization, governments *had* to lead. True, many advocacy groups wanted expanded social security – but few understood the dangers and challenges that fiscal inequality among the provinces posed. As a rule, their views of the situation resembled that of sociologist Harry Cassidy: they did not have a specific remedy for inequality. Instead, they wanted Ottawa to find the money for social security for the provinces, or to launch the programs on its own dime. It was up to governments themselves to devise the missing link in the expansion of social citizenship: an

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<sup>2</sup> Douglas M. Brown, *Equalization On The Basis Of Need In Canada* (Kingston: Institute of Intergovernmental Relations: Queen’s University, 1996) p. 5.

<sup>3</sup> Richard Simeon, *Federal-Provincial Diplomacy: The Making of recent policy in Canada*. (Toronto: University of Toronto Press, 1972) p. 13.



equalization program with non-conditional grants and an apparently neutral formula. But the onus for change was on Ottawa.

In retrospect, equalization seems like a simple, almost obvious, plan to remedy fiscal inequality and to ensure social cohesion. But it was difficult to devise – and even more difficult to convince the richer provinces to accept it, albeit begrudgingly. In turn, Ottawa had to accept its loss of control over how the poorer provinces spent their equalization grants. (The Rowell-Sirois Commission had advocated adjustment grants based on specific areas of provincial spending.) But non-conditional equalization was the only way to bridge the tensions between the advocates of provincial rights and the proponents of expanded social security to ensure the survival of the nation-state.

### **King's Post-War Years in Power**

Throughout his last years in power, the Prime Minister paid little attention to fiscal inequality or social programs. The second round of tax-rental agreements, which ran from 1947 to 1952, did contain some adjustment for fiscal need because the compensatory grants offered more money per capita for each percentage point of tax than the poorer provinces could collect on their own. As Finance Minister J. L. Ilsley explained in 1947, the per-capita payments ensured that the “weaker provinces would share equally in the productivity of the three fields of direct taxation.”<sup>4</sup> (Those were personal and corporate income taxes and succession

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<sup>4</sup> Douglas M. Brown, *Equalization On The Basis Of Need In Canada*. Brown is quoting R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*. Toronto: The Canadian Tax Foundation, 1980.

duties.) Quebec did not sign the rental deals on constitutional principle; Ontario did not sign because it objected to the amount of compensation and the loss of autonomy.

Meanwhile, Saskatchewan Premier Tommy Douglas became an influential voice amid the growing post-war chorus calling for expanded social programs, especially for health care. The Premier, who is now honoured as the founder of Medicare, agreed with federal proposals at the 1945-1946 Dominion-Provincial Conference to expand social security, especially hospital care. He also agreed with Ottawa's Keynesian attempt to maintain full employment and healthy economic growth through the continued centralization of key revenues. As he later explained, "There are a great many corporations that make their money in our [have-not] provinces but don't pay corporation taxes, income taxes, or inheritance taxes in our province."<sup>5</sup> If those revenues could remain centralized in return for federal grants, he reasoned, there would be greater fiscal equality and social cohesion among governments and citizens. There would be enough money to expand social security.

When the Dominion-Provincial Conference dissolved in May 1946, Douglas kicked off his advocacy. On June 29, he told Finance Minister J. L. Ilesley that his province would sign a tax-rental deal, and called for "steps [to] be taken immediately to work out arrangements to establish social security on a national basis."<sup>6</sup> When Ilesley's answer was vague, Douglas wrote to King, arguing that the

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<sup>5</sup> T. C. Douglas, *The Making of a Socialist: The Recollections of T. C. Douglas*, ed. Lewis H. Thomas, p. 217.

<sup>6</sup> Saskatchewan Premier T. C. Douglas to Finance Minister J. L. Ilesley, July 29, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of 1946 on

proposed social security programs had been left at “loose ends.”<sup>7</sup> On July 15, King responded that he was waiting for “sufficient acceptance” of the tax rental deals.<sup>8</sup> That was a ploy – and Douglas recognized it.

Other provinces joined the cause. On July 5, New Brunswick Premier John McNair told Ilesley of his “regret” at the postponement of the Social Security proposals, suggesting that the expansion of old-age pensions could be implemented separately.<sup>9</sup> Nova Scotia Premier Angus L. Macdonald, who had returned to the Premier’s job after a difficult stint in Ottawa as Defence Minister for the Navy, telegraphed Ilesley, asking for the details of Ottawa’s proposed health care grants and assistance for the unemployed employables. On July 5, Ilesley told Macdonald that health care grants were “not included in the present [tax rental] offer,” and that unemployment assistance was “necessarily dependent upon agreement of all the provinces” with that offer.<sup>10</sup> In mid-October, Macdonald told King that it seemed “illogical” to settle the tax-rental deals with individual provinces “and then to confer

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Matters of Substance Regarding Tax Agreements with the Provinces. Library and Archives Canada, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946. p. 52.

<sup>7</sup> Saskatchewan Premier T. C. Douglas to Finance Minister J. L. Ilesley, July 29, 1946, p. 53.

<sup>8</sup> Saskatchewan Premier T. C. Douglas to Finance Minister J. L. Ilesley, July 29, 1946, p. 54.

<sup>9</sup> New Brunswick Premier John B. McNair to Finance Minister J. L. Ilesley, July 5, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of 1946, on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946. p. 41.

<sup>10</sup> Finance Minister J. L. Ilesley to Nova Scotia Premier Angus L. Macdonald, July 5, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946. p. 27.

on dependent matters the dignity of consideration by a general conference.”<sup>11</sup> King replied that a Conference would serve “no useful purpose” unless “the attitude of certain provincial governments has altered.”<sup>12</sup>

The Prime Minister had found his “out”: He could not recall the First Ministers until *all* tax deals were signed. And he used that excuse. Repeatedly. In early October, Alberta Premier Ernest Manning made a “personal appeal” to King to recall the Conference because the issue “so vitally concerns the welfare of the people of Canada as a whole.”<sup>13</sup> Once again, King argued that there could be no Conference until there were tax rental deals with every province.

Douglas tried again, He asked King to recall the Conference to discuss “social security, unemployment, health insurance and old-age pensions...these matters cannot be delayed indefinitely .... It should be possible to find certain minimum services at least on which all the provinces and the Federal Government could agree to proceed.”<sup>14</sup> King ducked again – with politely expressed regret.

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<sup>11</sup> Nova Scotia Premier Angus L. Macdonald to Prime Minister Mackenzie King, October 16, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946, p. 28.

<sup>12</sup> Prime Minister Mackenzie King to Nova Scotia Premier Angus L. Macdonald, October 22, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946, p. 29.

<sup>13</sup> Alberta Premier Ernest C. Manning to Prime Minister Mackenzie King, October 8, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946. p. 59.

<sup>14</sup> Saskatchewan Premier T. C. Douglas to Prime Minister Mackenzie King, November 13, 1946. Dominion-Provincial Conference, Correspondence Since the Budget of

But there were other reasons for Ottawa's hesitancy in expanding social spending: the federal government wanted to conserve its available cash to protect Canada against the horrors of another Depression. Finance Minister Douglas Abbott perfectly captured Ottawa's conversion to Keynesian economics in a press release on January 25, 1947. Abbott outlined the progress in negotiating tax-rental deals with the provinces – and then he asserted Ottawa's aims: "It was the Dominion Government's hope...that all governments would be in a position to act effectively to prevent a repetition of the calamitous days of the thirties...Tax agreements are desirable in order to put both federal and provincial governments in a position to meet the challenge of possible post-war deflation and depression."<sup>15</sup>

Douglas let go of the issue of expanded social security for ten months. Then, in mid-August 1947, he once again tackled King on the expansion of social security. He reminded the Prime Minister of his exact words in his telegram on July 15, 1946: "As soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals."<sup>16</sup> Since seven provinces had now signed tax-rental deals with Ottawa, surely the time was right. Douglas asked "that

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1946 on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946. p. 55.

<sup>15</sup> "Press Statement – For release – afternoon papers, Saturday January 25, 1947, Honourable Douglas C. Abbott," File: Correspondence – Reply To Telegrams 1946, LAC, RG 47, Volume 68, p. 1.

<sup>16</sup> Telegram from Saskatchewan Premier T. C. Douglas to Prime Minister Mackenzie King, August 13, 1947, LAC, RG2, Vol. 76, File D40 1947-49 Dominion-Provincial Relations. Douglas put "quote" and "end quote" around King's previous message. p. 1.

[a] conference be called immediately to work out details for implementing proposals regarding old age pensions health insurance unemployment and public investment.”[Sic]<sup>17</sup> In the cryptic language of telegrams, the Premier went straight to the point.

King replied the next day by telegram, referring Douglas to Finance Minister Douglas Abbott’s budget speech on April 29, 1947. Then, Abbott had said the government still hoped to secure provincial approval for its proposals to the 1945-1946 Conference, including the “development of an efficient and flexible tax system designed to promote the expansion of employment and incomes, as well as a comprehensive program for the co-operation of the Dominion and provincial governments in the field of public investment and social security.”<sup>18</sup> Now, King told Douglas in telegraph shorthand, “I am doubtful if government would be prepared to go beyond position stated by Mr. Abbott in Parliament in presenting the budget and in moving second reading of Bill to authorize Dominion Provincial tax agreements.”<sup>19</sup> It was a wordy way of saying No.

Douglas always spoke for many of the poorer, more left wing provinces after his Depression-era experience as a Baptist minister and an ardent proponent of the social gospel. He wanted more federal money in his coffers to expand social security,

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<sup>17</sup> Douglas to King, August 13, 1947, LAC, p. 2.

<sup>18</sup> “Minister Says Ottawa Still Wants Agreement” in *The Globe and Mail*, Wednesday, April 30. P. 12.

<sup>19</sup> Telegram from Prime Minister Mackenzie King to Saskatchewan Premier T. C. Douglas, August 14, 1947, LAC, RG2, Vol. 76, File D40 1947-49 Dominion-Provincial Relations. p. 1.

<http://search.proquest.com.ezproxy.library.yorku.ca/hnpglobeandmail/docview/1323611036/F55D35176C034F35PQ/49?accountid=15182>

and he was impatient with Quebec's insistence on provincial autonomy over its revenues. He never comprehended Quebec's resistance to Ottawa's push for revenue centralization, nor would he grasp the depth of Quebec Premier Maurice Duplessis's conservatism.

It was an unexpected and somewhat unsettling side to an estimable politician. As he later observed: Canadians "had wasted a lot of time arguing about federal grants for education, highways, and the development of natural resources."<sup>20</sup> Ottawa should have found a way to keep the revenues from income taxes and succession duties in the post-war era, and offered non-conditional grants for health, welfare and education to the provinces "*without any strings attached*... The sources of revenue have not kept pace with the increasing responsibilities laid on our [provincial] doorstep."<sup>21</sup>

Those discussions about social security took place while other Premiers argued with King about the resumption of the Conference or their tax rental deals. Ontario Premier George Drew became embroiled in a nasty four-month correspondence with King: the Premier wanted the Prime Minister to recall the Conference; the Prime Minister insisted that the Premiers had to agree to the tax-rental deals *before* he would recall the Conference to discuss "mutually satisfactory arrangements relating to public investment and social welfare."<sup>22</sup> It was hardball.

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<sup>20</sup> T. C. Douglas, *The Making of a Socialist: The Recollections of T. C. Douglas*, ed. Lewis H. Thomas, p. 218.

<sup>21</sup> T. C. Douglas, *The Making of a Socialist: The Recollections of T. C. Douglas*, ed. Lewis H. Thomas, pps. 218-219. My italics.

<sup>22</sup> Prime Minister Mackenzie King to Ontario Premier George Drew, January 27, 1947, Dominion-Provincial Conference, Correspondence Since the Budget of 1946

The animosity crackled in their exchanges. Ontario insisted that the federal compensatory grant for the surrender of its tax revenues was not high enough to meet its responsibilities. It also objected to Ottawa's modest generosity to the poorer provinces to ease fiscal inequality – *and* to secure their consent to the tax-rental deals. For a decade, Ontario Premiers simply walked away from Ottawa's tax-rental deals (the 1947-1952 tax rentals) – or they drove hard bargains in terms of compensation (the 1952-1957 rentals). In early 1946, Premier Drew even proposed that the poorer provinces should have “to levy taxes equal to the highest in any other province” to qualify for fiscal-need payments as part of the tax-rental pacts.<sup>23</sup> Ottawa's generosity to the poorer provinces, he insisted, simply went too far.

Quebec objected to the tax rental deal on constitutional grounds – although Premier Maurice Duplessis was more polished than Drew in his response. In peacetime, Duplessis initially *seemed* willing to allow Ottawa to collect *income* taxes – but he set impossible conditions upon any potential deal. He concluded that if he actually surrendered access to revenue that he had the constitutional right to collect, he could no longer protect Quebec's provincial rights, including its unique approach to social policy.

The issue was particularly important for Quebec. The province had introduced corporate income taxes in 1884.<sup>24</sup> It would introduce personal income taxes in

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on Matters of Substance Regarding Tax Agreements with the Provinces. LAC, Dominion-Provincial Conference. RG 19, Vol. 538. File (1) 135-0-167 1946. p. 25.

<sup>23</sup> Minutes of the Coordinating committee of the Dominion-Provincial Conference (Confidential), February 1, 1946, January 28, 1946, p. 2.

<sup>24</sup> J. Thomas McCallum, “A Trip Down Memory Lane: Reflections on the evolution of taxation and tax rates,” in *CGA Magazine*, January-February 2008, The Chartered Professional Accountants of Canada.



1954, partly as a gesture of defiance against Ottawa. But Duplessis flatly refused to surrender his province's right to collect succession duties. As he argued in early January 1946, such taxes were "intimately associated with family life and the civil code in Quebec and these were more important aspects than purely financial and economic ones."<sup>25</sup> In effect, Quebec was unwilling to surrender one of its hegemonic roles in the cultural life of its citizens: it wanted to remain the primary presence during the legal rites of generational change. A month later, the Premier formally ruled out a tax rental deal at a press conference: "To participate in the violation of the federative pact in the sabotage of provincial rights, particularly those of the Province of Quebec, would be complicity, not collaboration."<sup>26</sup> The province would not sign another tax-rental accord.

Other provinces squabbled over which province had secured the better tax rental pact with Ottawa. But they agreed with the principle of the rental deals, primarily for the sake of their economic and fiscal safety. In January 1946, Manitoba Premier Stuart Garson argued that the tax-rental deals would ensure that Ottawa had enough money to smooth out economic downturns through Keynesian spending: "One of the surest ways to destroy our federal system would be to leave its tax structure and its

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[http://www.cga-canada.org/en-ca/AboutCGACanada/CGAMagazine/2008/Jan-Feb/pages/ca\\_2008\\_01-02\\_prof\\_taxstrategy.aspx](http://www.cga-canada.org/en-ca/AboutCGACanada/CGAMagazine/2008/Jan-Feb/pages/ca_2008_01-02_prof_taxstrategy.aspx)

<sup>25</sup> Minutes of the Coordinating committee of the Dominion-Provincial Conference (Confidential), February 1, 1946, LAC, Dominion-Provincial Conference Coordinating Committee Meeting, January 28<sup>th</sup>-February 1<sup>st</sup>, RG 2, Volume 76, File: D-40 1946 Filed Separately. p. 26.

<sup>26</sup> "Avoid Friction Over Tax Deals, Duplessis Warns," in *The Globe and Mail*, Monday, February 3, 1947. p. 15.

<http://search.proquest.com.ezproxy.library.yorku.ca/hnpglobeandmail/docview/1325686887/3BB5077FE28A4C3APQ/2?accountid=15182>

monetary and fiscal policy in such a condition that no government has the authority and the ability to take effective steps to prevent the return of the industrial unemployment and the low farm incomes which were so typical of the pre-war conditions.”<sup>27</sup> Garson remembered the Depression on the Prairies only too well – and he wanted Ottawa to have funds to stimulate the economy during downturns.

Then there were provinces which asserted that the tax-rental deals did not take account of their special revenue needs. This remained an ongoing, and usually tense, debate. Almost ten years after Duplessis effectively rejected King’s offer to renew Quebec’s rental deal, British Columbia Premier W. A. C. Bennett told his fellow Premiers that he would only renew his tax-rental deal if Ottawa recognized that “under the present formula we are not receiving a fair or adequate share.”<sup>28</sup> His province had “the right to substantially increased federal assistance for the public services which the province has undertaken... The nation should see to it that the citizens of no area fall below the national average in the matter of social and educational services.” In fact, his province was wealthy – but Bennett wanted more.

Federal politicians and bureaucrats surely dreaded the renewal of the five-year deals with their one-on-one squabbles and their impossible dreams. The issue of revenue centralization split the participants between the “Haves” and “Have Nots” – *and* between the defenders of provincial rights and the proponents of expanded

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<sup>27</sup> “Statement of Premier Stuart Garson On Behalf of The Province Of Manitoba: Dominion-Provincial Conference on Reconstruction, Ottawa, January 1946,” File: Statement of Premier Stuart Garson On Behalf of The Province Of Manitoba, LAC, RG 47, Volume 68. p. 1.

<sup>28</sup> Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. Pps. 76-77.

social security. These were not tidy splits: individual provinces adopted nuanced approaches to Ottawa and to each other. Despite changes in their political leadership, however, provincial governments kept generally consistent positions over the post-war decade. During King's last years in power, and St. Laurent's early ones, the federation was at an impasse.

### **Federations Require Some Form of Equalization to Survive**

Few had any doubts at the time about what was to blame for this stalemate: the very nature of federalism itself – especially Canadian federalism with its strong provincial identities. As Premier Douglas and the Saskatchewan Government shrewdly maintained at the start of the post-war odyssey:

The federal system of government cannot be commended as giving a maximum of convenience...[But] it may reasonably be supposed that the factors making compromise necessary in 1867 are just as strong to-day...It seems, therefore, that we must regard the inconveniences of the federal system as merely a circumstance to be reckoned with in the future...A federal union is certainly to be preferred to no union at all. At the same time it seems reasonable to urge that the federal system should be made as workable as possible.<sup>29</sup>

More than two years later, social reformer Harry Cassidy summarized that lesson in an influential report on Canadian social security, which he wrote at the behest of Health Minister Paul Martin. The University of Toronto sociologist outlined the gaps in coverage in December 1947. And he stressed how far Canada lagged behind other developed nations: the United States with its Social Security Act of 1935; New

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<sup>29</sup> Saskatchewan Replies...To the Dominion Government Proposals delivered to the Dominion-Provincial Conference on Reconstruction, August 6, 1945, with covering letter from Saskatchewan Premier T. C. Douglas. "Saskatchewan replies", LAC, RG 19, Volume 536, file 135-0-167 (1) 1944-45. p. 84.

Zealand with its Social Security Act of 1938; Great Britain's postwar program based on the report of social reformer Sir William Beveridge in 1942; and Australia's postwar reforms in health care. Canada was far behind – because of its extremely difficult federal system:

A major reason for Canada's delay in building social services up to good modern standards has been the acute conflict between the Dominion and the provinces regarding finances and legislative jurisdiction. The provinces were reluctant to go ahead with ambitious and costly schemes of social welfare in the 1930s pending the settlement of their claim that the Dominion should assume an increasing share of the burden, particularly in connection with economic security.... But there is still, in most provincial capitals, marked reluctance to move forward vigorously on social security measures until agreement is reached regarding the respective roles of the Dominion and of the provinces. On the other hand, Dominion action is clearly difficult as long as there is opposition by some of the Provinces to infringement upon their traditional jurisdiction over health and welfare and as long as they are unwilling to agree to redistribution of the tax fields.<sup>30</sup>

That quotation is pivotal to my thesis. It was an astute recognition of the nation's longstanding quandary: Ottawa could not unilaterally barge onto the provincial turf of social programs, at least not in all provinces; but many poorer provinces still lacked sufficient funds to implement programs that would be roughly comparable to those in the richer provinces without impossibly high tax rates. Cassidy had a solution: Ottawa "should be actively interested in all aspects of social security. It should assist and encourage those parts of the program which are

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<sup>30</sup> Harry M. Cassidy, A Canadian Program Of Social Security: A Report to the Honourable Paul Martin, Minister of Health and Welfare, December 16, 1947. LAC, RG 19, Volume 440, File 108-8-1. pps. 4-5.

administered by the provincial and local governments by means of financial grants and technical services.”<sup>31</sup>

Cassidy did not explicitly address the notion of equalizing grants: instead, he maintained, “minimum standards of service should be general throughout the country.”<sup>32</sup> But his advocacy eventually prompted Martin to push King to take small steps toward health coverage.

### **Australia and Inequality in the Post-War World**

Throughout Canada’s journey through the complications of federalism, the Australians monitored the process – and the Canadians watched them enviously in return. When Bank of Canada researcher W. Elwynne Scott visited Australia for six weeks during the autumn of 1946, he produced a fourteen-page chronicle of many aspects of Australian life, including its weather, its housing and trade policies, its industrial strategies, its living standards, and the decrepitude of its automobiles.

He concluded that Australia was “an ideal country for the little man. He can get enough to eat, decent housing and clothes and have reasonable leisure time. He is not ‘pushed around’ or made to feel particularly inferior in his occupation and he is not made unhappy by the sight of great wealth in the hands of the few.”<sup>33</sup> By then, of course, Australia had developed a network of social programs. Canada’s sister

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<sup>31</sup> Harry M. Cassidy, *A Canadian Program Of Social Security: A Report to the Honourable Paul Martin, Minister of Health and Welfare*, December 16, 1947. p. 30.

<sup>32</sup> Harry M. Cassidy, *A Canadian Program Of Social Security: A Report to the Honourable Paul Martin, Minister of Health and Welfare*, December 16, 1947., p. 202.

<sup>33</sup> “Australia: A General Memorandum Based on October-November Visit 1946,” dated February 25, 1947, signed with initials WES, Bank of Canada Archives, International Development Fonds, File 4E-110 v. 2, p. 14.

Dominion had long since dealt with fiscal inequality among state governments – and Canberra had sufficient constitutional power to create social programs.

### **The Voices of the Social Activists Grow Louder**

In the early post-war years, King was determined to preserve cash for infrastructure spending during downturns and for defence spending during the Cold War. In turn, advocacy groups and their political supporters such as Saskatchewan's Douglas and Nova Scotia's Angus L. Macdonald tailored their pleas for expanded social programs to counter Ottawa's resistance. They maintained that programs such as expanded old-age pensions would actually smooth out the fiscal cycle, funneling cash to poorer Canadians to spend during downturns. Social programs would also ensure resistance to Communism and loyalty to the Canadian way of life. Douglas added that equalized compensatory grants would flatten out regional downturns, ensure economic stability and strengthen national ties.

Initially, those advocates made little progress with appeals in the name of economic stability and social cohesion. But, as federal politicians pushed for the renewals of the five-year tax-rental agreements with the provinces, they were uneasily aware that they were running out of string. The Green Paper had aroused hopes that social advocates could not abandon: it had dangled the prospect of The Good Life. Advocacy groups, some provincial premiers and other politicians and academics became an increasingly persistent force in many provinces. Budgetary trade-offs became progressively more difficult. But Ottawa could not find a compromise between the defenders of provincial rights and the activists for social

security – because it would not even consider the possibility of non-conditional equalizing grants to the poorer provinces.

The relentless pressure for expanded social security actually deepened before the 1945-1946 Dominion-Provincial Conference officially failed. To encourage Ottawa, in March 1946, the Canadian Welfare Council lauded Ottawa's post-war proposals, particularly its Green Paper on social security. "The Dominion government recognizes social security as an important part of the total programme of achieving high employment and adequate standards of living."<sup>34</sup> It urged Ottawa to proceed with a comprehensive Social Security program through its own initiatives to boost aid to the unemployed, provide for unemployed employables, and institute old-age pensions without "the ignominy of the means test."<sup>35</sup>

The welfare council argued that Unemployment Insurance benefits were inadequate: Ottawa should make a determined effort to boost wage rates in depressed areas and industries, which would automatically raise UI payments. "Insurance benefits must obviously be somewhat less than wage rates, some of which are now very low indeed."<sup>36</sup> Clearly, the fear of dependency remained vivid. The welfare council also urged Ottawa to inaugurate grants to the provinces for a national health program, welfare payments and employment retraining.

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<sup>34</sup> "Dominion-Provincial Relations and Social Security," Canadian Welfare Council brief presented to the Government of Canada, March 1946, Social Security Canada 1946, LAC, MG28, Series I 103, Vol. 358, p. 2.

<sup>35</sup> "Dominion-Provincial Relations and Social Security," Canadian Welfare Council brief presented to the Government of Canada, March 1946, p. 5.

<sup>36</sup> "Dominion-Provincial Relations and Social Security," Canadian Welfare Council brief presented to the Government of Canada, March 1946, p. 8.

Then it added a crucial, and prescient, caveat: “The total financial settlement, embracing basic grants plus specific grants plus tax transfers plus any other items, *must guarantee that the poorer provinces have sufficient revenues to carry on their essential services of education, health, welfare, conservation, highways, etc., at a reasonable level.* This principle was enunciated by the Rowell-Sirois Commission in 1940, and it should be followed now.”<sup>37</sup> The National Adjustment Grants that the Royal Commission had so bravely espoused in 1940 were now seen as pivotal for the cause of social reform.

No one yet realized or accepted that Ottawa first had to de-couple such grants from specific provincial spending programs or from the tax-rental deals to make the breakthrough of non-conditional equalization. But the Welfare Council, while applauding the simplicity of Ottawa’s call for tax rental deals with compensatory per-capita grants, did add a critical acknowledgment. Such grants “would give the poorer provinces larger Dominion grants, on a per capita basis, than the richer provinces – which should freely accept such treatment in the interests of national unity and welfare.”<sup>38</sup>

In effect, the council explicitly recognized Ottawa’s implicit equalization in the tax-rental agreements. It was also an early convert to the language of social rights, as opposed to social needs. In a key passage in that March 1946 paper, it put a high priority on the redesign of the Old-Age Pension, including the lowering of the age of qualification from seventy to sixty-five years of age and the elimination of the

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<sup>37</sup> “Dominion-Provincial Relations and Social Security,” Canadian Welfare Council brief, p. 3-4. *My italics.*

<sup>38</sup> “Dominion-Provincial Relations and Social Security,” Canadian Welfare Council brief, p. 4.



despised means test. There were “great numbers of independent, hard-working, self-respecting people in Canada who can and do avoid ‘relief’ and other means-test schemes during their working lives, but cannot avoid the ignominy of the means-test after they retire from active work unless there are provided for them pensions as a matter of right.”<sup>39</sup> That was one voice among a growing chorus that was starting to talk about the *right* to social security when describing the requirements for the post-war world.

Other groups added their voices to that lobbying effort. There was the Canadian Congress of Labour with its brilliant research director and future Senator Eugene Forsey; the Canadian Council of Churches; the National Council of Women; and the Canadian Teachers’ Federation, which also tartly noted the fiscal inequalities among the provinces. The list expanded as the 1940s edged into the 1950s, when the First Ministers gathered again and again, usually deadlocked.

That line-up was formidable. At the annual National Council of Women gathering in June 1946, local affiliates presented resolutions that addressed social needs. The delegates from Windsor, On., called for the resumption of the First Ministers’ Conference to agree on constitutional amendments to meet “present day ideas of social services and .. modern economic conditions.”<sup>40</sup> The resolution did not specify what that might entail – or how the First Ministers could address the huge stumbling block of fiscal inequalities among the provinces.

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<sup>39</sup> “Dominion-Provincial Relations and Social Security,” Canadian Welfare Council brief. p. 5.

<sup>40</sup> Resolutions: Annual Meeting Niagara Falls, June 3<sup>rd</sup> to 7<sup>th</sup>, 1946, National Council of Women. LSC, MG 28, Series I 25, Volume 89, File: Resolutions 1945-1946, File 2. p. 4.

The Vancouver affiliate of the National Council of Women called for subsidized rental housing for low-income Canadians, citing the proposals of the housing subcommittee of the Advisory Committee on Reconstruction as the model. That controversial wartime subcommittee had called on Ottawa to pick up the full tab to subsidize low-income renters – and to loan money to municipalities for the construction of new public housing units. It also urged Ottawa to provide annual subsidies to local authorities to ensure that rents stayed low.<sup>41</sup>

The council from Peterborough, On. wanted Ottawa to “enact some measure of National Health Insurance to be enforced along the same lines as Unemployment Insurance to replace the haphazard non-continuous form of Compulsory Insurance now in effect with the different employers.”<sup>42</sup> The council did not address fiscal inequality among the provinces. Instead, the resolution implied that Canadians would pay for their health insurance through payroll deductions – but there was no mention of the provinces, which were responsible for hospitals and health care.

Other groups were singing from the same ill-informed songbook. In October 1947, the seventh annual convention of the Canadian Congress of Labour (CCL) requested “a comprehensive social security plan for Canada,” the abolition of the means test for the old-age pension, and a national program for low-rental housing.<sup>43</sup> There was no mention of what level of government would pay for those programs – or what

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<sup>41</sup> John C. Bacher, *Keeping To The Marketplace: The Evolution Of Canadian Housing Policy* (Montreal-Kingston: McGill-Queen’s University Press, 1993) pps. 169-170.

<sup>42</sup> National Council of Women Resolutions: Annual Meeting, Niagara Falls, June 3-7, 1946. Resolutions 1945-1946 File 2, LAC, MG 28, Series I 25, Volume 89. pps. 4, 3, and 7.

<sup>43</sup> News Bulletin No. 16: “CCL Holds Canada’s Greatest Labour Convention,” Canadian Congress of Labour, News Bulletin 1947 173-7, LAC, MG 28, Series 103, Volume 173. p. 2.

level of government would administer them. The key issue of fiscal inequalities among provinces was simply ignored.

In March 1948, the CCL reflected its members' dreams with another nudge: It regretted that Ottawa had not proceeded "with the social security programme which it presented to the Dominion-Provincial Conference in 1945, covering such matters as health insurance, increased old age pensions, unemployment assistance and similar benefits."<sup>44</sup> The CCL welcomed Health Minister Martin's reassurance that the proposal had not been abandoned, "but it is obvious that a programme of the nature proposed is urgently needed."<sup>45</sup> Once again, there was no mention of provincial fiscal inequalities or the source of funds for those programs.

Inequalities remained glaring. In mid-1948, the Canadian Council of Churches, on behalf of ten churches and three affiliated groups, asked King to work with the provinces to enact "a comprehensive scheme of social insurance which, by satisfactorily combining provincial and federal services, would constitute a charter of social security for the whole of Canada."<sup>46</sup> The Council added that the social security program should be financed on a contributory basis "for all appropriate

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<sup>44</sup> "Memorandum Submitted to the Dominion Government by the Canadian Congress of Labour, March 5, 1948. Annual Memorandum to Federal Government (Canadian Congress of Labour) 1943-1955. LAC. MG 28, Series I 103. Volume 282. p. 4.

<sup>45</sup> "Memorandum Submitted to the Dominion Government by the Canadian Congress of Labour, March 5, 1948, p. 4.

<sup>46</sup> Memorandum For Right Honourable W. L. Mackenzie King from the Canadian Council of Churches, File: 164 SS 1949, LAC, RG 19, Series E- 2-C, Volume 226, n. d., n. p. – but page two of two-page memorandum. This was tucked in a 1949 file – but it dates from mid-1948.

items, [and] participated in by the Dominion and all Provincial Governments.”<sup>47</sup>

There was no mention of how the poorer provinces would pay for such programs.

Those major groups targeted the Prime Minister along with the Dominion Government in general. But federalism seemingly confused them. At best, they urged Ottawa to work with the provinces. Or they urged Ottawa to act on its own. Or they called upon taxpayers to pay through their contributions to public insurance plans. But it is striking today that the advocacy groups did not tackle that huge conundrum of federalism: fiscal inequality among the provinces. It was seemingly up to Ottawa and the provinces to figure out how social programs would apply across the nation when poorer provinces could not afford them.

Governments were seemingly unable to solve their societal problems.

In March 1949, the CCL broadened its request for expanded social security: Ottawa should develop a national social security program including health, invalidity and old age pensions “in accordance with the principles of the British system of social security.”<sup>48</sup> Pensions were “particularly urgent.” Few workers are covered “by pension plans of any kind, and most of these plans are altogether inadequate for health and decency. Millions of Canadian citizens have nothing to look forward to at the end of their working lives but destitution or penury.”<sup>49</sup>

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<sup>47</sup> Memorandum For Right Honourable W. L. Mackenzie King from the Canadian Council of Churches.

<sup>48</sup> “Memorandum Submitted to the Government by the Canadian Congress of Labour on Friday, March 25, 1949. Annual Memorandum to Federal Government (Canadian Congress of Labour) 1943-1955. LAC. MG 28, Series I 103. p. 2.

<sup>49</sup> “Memorandum Submitted to the Government by the Canadian Congress of Labour on Friday, March 25, 1949.

The author of this memo to the federal cabinet, presumably Forsey, called for constitutional amendments so that Ottawa could institute a nationwide social security program. The memorandum reasoned that social programs “are of common interest to the Canadian people, and ...can be dealt with in an adequate manner only if such an amendment is obtained.”<sup>50</sup> Thus, the CCL ignored the problem of provincial fiscal inequality with the simple expedient of putting the onus on Ottawa. It also ignored the danger of creating federal social programs for all provinces – when some provinces, particularly Quebec, wanted to design and run their own.

The voices of these disparate groups were becoming stronger: the federal Liberals could not completely ignore the public expectations that they had aroused – especially because so many Canadians now knew what other nations had done for their citizenry. In a report on a roundtable at the University of Toronto in May 1948, social work professor John S. Morgan concluded: “There is an unmistakable drift of public opinion in Canada towards overt expression of the need in a complex industrial society for programs of social security which will place the protection against the main hazards of modern times on a predictable insurance basis.”<sup>51</sup> Morgan detected a trend over the previous twenty years of “increasing responsibility for social welfare by the Dominion Government.”<sup>52</sup>

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<sup>50</sup> “Memorandum Submitted to the Government by the Canadian Congress of Labour on Friday, March 25, 1949.

<sup>51</sup> John S. Morgan, *A Meeting of Minds: A Report on the Round Table on Social Security, held at the University of Toronto, May 8-11, 1948*, reprinted from *Canadian Welfare*, July 1948, File: Social Security Canada Morgan John S A Meeting Of Minds, LAC, MG28, Series I 103, Vol. 358, p. 6.

<sup>52</sup> John S. Morgan, *A Meeting of Minds: A Report on the Round Table on Social Security, held at the University of Toronto, May 8-11, 1948*, p. 5.

But he understood the complications that Dominion control would entail. There was a “battle of wits and words” at the roundtable over the difficulty of establishing adequate social security in a federal state: “The constitutional issues were recognized.”<sup>53</sup> Most delegates concluded that contributory insurance should be a federal operation. Perhaps Ottawa could use grants-in-aid to fund other nation-wide but provincially administered programs – although Morgan made no mention of equalized grants-in-aid. So far, all levels of government – federal, provincial and municipal – had “shirked the problem and preferred to keep the real costs of having no integrated plan for social security hidden in a complex tangle of federal, provincial and municipal responsibilities for patching and repairing the neglect of [Canada’s] human resources.”<sup>54</sup> But “the Canadian people are beginning to awaken to the need for something more constructive and more positive in their approach to social welfare.”<sup>55</sup>

At a similar gathering in May 1949, Morgan’s summary of the experts’ discussions became even more emphatic – and the language of rights was emerging here, too. “Social security was seen to be not a cure-all for the maintenance of a dynamic economy, but an essential protection of individual rights in human society now more complex in its organization than ever before.”<sup>56</sup> The experts recognized that

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<sup>53</sup> John S. Morgan, *A Meeting of Minds: A Report on the Round Table on Social Security, held at the University of Toronto, May 8-11, 1948*, p. 10.

<sup>54</sup> John S. Morgan, *A Meeting of Minds: A Report on the Round Table on Social Security, held at the University of Toronto, May 8-11, 1948*, p. 11.

<sup>55</sup> John S. Morgan, *A Meeting of Minds: A Report on the Round Table on Social Security, held at the University of Toronto, May 8-11, 1948*, p. 11.

<sup>56</sup> John S. Morgan, *Foundations of Economic Security: A Report on the Second Round Table organized by the School of Social Work and the Department of Extension in the University of Toronto, held in Toronto May 28, 29 and 30, 1949*, reprinted from

Ottawa had a responsibility to devise public works to increase the number of jobs when business activity slackened dramatically.<sup>57</sup> The next challenge was to devise Unemployment Assistance for employables who had exhausted their benefits: "But there are fiscal problems and constitutional difficulties in relating political and administrative responsibilities to financial capacities," Morgan reported. The experts had finally grasped the central problem of fiscal inequality in federalism – but they could not solve it.

The delegates did emphasize the importance of employment for human dignity. The effect of American work-relief programs in the 1930s should be viewed in terms of "social accounting....All America is richer in human values retained and enhanced in those who worked rather than rotted on relief."<sup>58</sup> The advocates had adeptly linked a healthy economy with a healthy society.

### **King Finally Takes Action**

In May 1948, Health Minister Paul Martin warned the Prime Minister that the public was becoming more critical of his government's failure to provide health-care funding. After reading Martin's letters, King confided to his Diary that he had already been considering the proclamation of a nation-wide social security minimum that

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*Canadian Welfare*, Vol. XXV, No. 4, September 1949, File: Social Security Canada  
Morgan John S., 1949. LAC, MG28, Series I 103, Vol. 358, p. 15.

<sup>57</sup> John S. Morgan, *Foundations of Economic Security: A Report on the Second Round Table organized by the School of Social Work and the Department of Extension in the University of Toronto, held in Toronto May 28, 29 and 30, 1949*, p. 7.

<sup>58</sup> John S. Morgan, *Foundations of Economic Security: A Report on the Second Round Table organized by the School of Social Work and the Department of Extension in the University of Toronto, held in Toronto May 28, 29 and 30, 1949*, pps. 10-11.

could be “identified with my life’s effort.”<sup>59</sup> That might have been true. Then again, the Prime Minister was capable of self-deception in his diary – and he had not acted.

But Martin’s warning about the possibility of electoral shifts stung him. In January 1948, he had indicated that he would resign later that year. Now, he worried that his inaction on social policy might have put the Liberal hegemony at risk. A day after those musings, he told key ministers that health care would provide “a human side” for the Liberals in the upcoming election campaign.<sup>60</sup> Then he told the entire cabinet that he was aiming “in the direction of national minimum...[That] would perhaps obviate having to take up other bits of social reform at present. *I did not want the party to do more than it really should.*”<sup>61</sup>

That was typical King: cautious to the end. But when he read a statement of his health-care policy to the House of Commons on Friday, May 14, he met with almost universal applause. He would start with federal health-care grants to all provincial governments – even if he did not have tax-rental accords with Ontario and Quebec. Ottawa earmarked money for health surveys, hospital construction and general public health. He “obtained Quebec’s approval [for the grants] through personal diplomacy with its premier, Maurice Duplessis.”<sup>62</sup> Ontario would also accept the

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<sup>59</sup> Diary of William Lyon Mackenzie King, Tuesday, May 11, 1948.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber=32089&>

<sup>60</sup> Diary of William Lyon Mackenzie King, Wednesday, May 12, 1948.  
<http://www.bac-lac.gc.ca/eng/discover/politics-government/prime-ministers/william-lyon-mackenzie-king/Pages/item.aspx?IdNumber>

<sup>61</sup> Diary of William Lyon Mackenzie King, Wednesday, May 12, 1948. My italics.

<sup>62</sup> Implementing the National Health Grants in Making Medicare: The History of Health Care in Canada, 1914-2007, History Museum, Government of Canada site



federal funding. Federal efforts were minimal, far short of the Green Paper that Ottawa had championed with such aplomb in 1945. But it was a start.

More importantly, those grants did *not* require matching grants from the provinces. So King did not have to tackle the issue of provincial fiscal inequality – and the need for equalizing grants.

### **Louis St. Laurent Becomes Prime Minister**

Despite King's action, advocacy groups would not go away. What about the rest of the Green Paper? When would Ottawa work with the provinces to implement such plans as unemployment assistance? Many groups did not care if what they wanted was in Ottawa's field of constitutional jurisdiction or in the provinces' field. Some groups understood intuitively that Ottawa and the provinces had to work together if social programs were to function effectively. Others wanted Ottawa to pick up the cost. *Very* few recognized the huge impediment of fiscal inequalities to expanded social security across the provinces. The discussion of equalization was *always* a government insiders' game.

Those groups were hopeful when Louis St. Laurent succeeded Mackenzie King as Prime Minister on November 15, 1948. Four-and-a-half months later, at midnight on March 31, 1949, the impoverished colony of Newfoundland joined Canada as the tenth province – after two divisive referendums. Canada had a prominent presence in the post-war world. But St. Laurent did not initially tackle the challenge of expanding social programs. Alarmed, the lobbyists for social security redoubled

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<http://www.civilization.ca/cmc/exhibitions/hist/medicare/medic-3h17e.shtml>

their efforts, anxious to tilt the balance against the protectors of provincial autonomy, who were partly responsible for St. Laurent's caution.

But the international situation was also fraught. From the early years of the post-war era, fears about Communism had preoccupied the West, especially after the Soviet Union secured the atomic bomb. Those sentiments deepened with the Korean War, which ran from June 1950 to July 1953. Canada participated in that conflict at the behest of the United Nations Security Council. It also beefed up its defence budget in response to the perceived Communist threat, setting up yet-another tug-of-war between spending on social security and spending on defence.

Undaunted, many advocacy groups and politicians portrayed this tension as artificial. In February 1949, the Canadian Teachers' Federation urged St. Laurent to earmark federal funding for education – because of the fiscal inequalities across provinces and municipalities. "Surely, the educational opportunity of the Canadian child should not depend entirely upon the wealth of the province of his birth, the real property of his municipality and the generosity of the individual property owner to translate his recognition of the need for increased educational expenditure into a specific increase in mills upon his specific piece of property."<sup>63</sup>

The teachers' federation specified that control over education should remain with the provinces – but that Ottawa should provide "a straight per pupil capita grant" to the provinces as long as they "did not lower their own educational spending."<sup>64</sup> It added pointedly: "We are faced with a national problem. To the degree that the

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<sup>63</sup> Canadian Teachers' Federation to Prime Minister Louis St. Laurent, February 3, 1949, LAC, MG28, Vol. 10, File Briefs to Government CTF, 1938-1961. p.3.

<sup>64</sup> Canadian Teachers' Federation to Prime Minister Louis St. Laurent, February 3, 1949, p. 7.

education of Canadian boys and girls is deficient or insufficient, we reduce the prosperity of our nation and *increase the vulnerability of our national security*.”<sup>65</sup>

In March 1949, University of Toronto sociologist Cassidy suggested to Justice Minister Stuart Garson that Ottawa should hold a series of Dominion-Provincial Conferences on specific issues, especially social security. Ottawa should consider a constitutional amendment that would allow the federal government to administer contributory social insurance measures. It should also introduce a program to assist those whose Unemployment Insurance payments had expired. “As economic conditions become more difficult the old “relief” problems of the 1930s will reappear,” Cassidy warned. “As soon as demands for relief on the local public authorities amount to very much the provinces will probably be making representations to Ottawa for assistance.”<sup>66</sup> Cassidy was one of the few experts who understood the constitutional problems of social security: His solution for fiscal inequality was to put the onus on Ottawa, which would administer contributory social security schemes. He ignored potential objections from the provinces.

The pressure on the federal Liberals mounted. A few days later, the Canadian Congress of Labour made its ninth annual presentation to the federal government with the pointed observation that “our recommendations in the past have not been as effective as we had wished.”<sup>67</sup> It was a clear challenge to St. Laurent: among the

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<sup>65</sup> Canadian Teachers’ Federation to Prime Minister Louis St. Laurent, February 3, 1949, LAC, MG28, Vol. 10, File Briefs to Government CTF, 1938-1961. p.3. My italics.

<sup>66</sup> Harry M. Cassidy, director of the University of Toronto School of Social Work, to Justice Minister Stuart Garson, March 17, 1949, File D-40 (Volume 1) 1949 Dominion-Provincial Relations, LAC, RG2, Volume 126, p.3.

<sup>67</sup> “Memorandum: Submitted to the Government of Canada by the Canadian Congress of Labour on Friday, March 25, 1949, File: Annual Memorandum to Federal

CCL requests was its repeated call for “free medical, hospital and dental services, as well as sickness and accident insurance.”<sup>68</sup> Although Ottawa had started to cooperate with the provinces and municipalities – this was a reference to King’s health grants – there had been “undue delay” in adopting a national health insurance scheme.<sup>69</sup> Once again, the CCL called for constitutional amendments to handle social security issues that “are of common interest to the Canadian people.”<sup>70</sup>

St. Laurent hastened to assure the delegates that they should take credit for recent modifications to labour and social legislation. They remained impatient. A few days later, when Ottawa refused to provide funding for low-rental housing, CCL President A. R. Mosher was bleak: “Unless the Government can offer something better than this, the Canadian people are bound to show their resentment.”<sup>71</sup>

The Prime Minister also received letters that belied the promise of the post-war boom. Madame P. Emile Ouellet wrote from Matane County, Quebec, on April 9, 1949, begging St. Laurent to “tax the rich instead of the poor, so that we might be able to live a little better. When a man with a family and who has worked hard all his life reaches the age of 50 without having been able to accumulate any savings or to

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Government (Canadian Congress of Labour) 1943-1956. LAC, MG28, Series I 103, Volume 282. p. 1.

<sup>68</sup> “Memorandum: Submitted to the Government of Canada by the Canadian Congress of Labour on Friday, March 25, 1949.” p. 1.

<sup>69</sup> “Memorandum: Submitted to the Government of Canada by the Canadian Congress of Labour on Friday, March 25, 1949.”, p. 1.

<sup>70</sup> “Memorandum: Submitted to the Government of Canada by the Canadian Congress of Labour on Friday, March 25, 1949.”, p. 2.

<sup>71</sup> News Release, March 30, 1949, Canadian Congress of Labour. LAC, MG 28, Series I 103, Volume 173, File: News Release, Refusal Of Federal Government, March 30, 1949 173-70. p. 2.

own a house, there is no social security...We lack clothing, food and housing....all the stores are loaded down with fruit and meat. All that is lacking is money.”<sup>72</sup>

### **Australia Keeps Track**

The Australians watched avidly. Across the postwar decades, they deluged Canberra with catalogs of current legislation, updates on provincial and federal politics, lists of prominent civil servants and politicians – the Bank of Canada’s new Deputy Governor James Coyne was a “refreshing anomaly” in February 1950 – and the texts of budgets and Speeches From The Throne.<sup>73</sup> The topic of federalism, particularly social security, retained its endless fascination.

The Australians were far ahead of Canada in the implementation of Social Security – but they also understood the careful balance of costs and benefits that such programs entailed. Tucked into the High Commission’s files was a pivotal address that Finance Minister Douglas Abbott gave on January 5, 1949 to the annual lunch of the Canadian Women’s Club of New York. The minister used the occasion to provide an overview of Canada’s progress in 1948: “It is safe to say that the average Canadian now enjoys a standard of living at least half as high again as he did before the war, and a good deal higher than at any time in the past.”<sup>74</sup>

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<sup>72</sup> Mrs. P. Emile Ouellet to Prime Minister Louis St. Laurent, April 9, 1949. [PMO translation]. LAC, RG 19, Series E-2-C, Volume 226, File 164 SS. 1949, p. 1.

<sup>73</sup> Memorandum on Canadian Personalities \_ Mr. J. W. Coyne for the External Affairs Secretary in Canberra from the High Commission Official Secretary, February 21, 1950. National Archives of Australia: Canada – Internal – Personalities. Series number: A1838, Control symbol: 229/1/3 PART 1, Barcode: 1603792. p. 1.

<sup>74</sup> “Report On Canada In 1948: Address by the Honourable Douglas Abbott, Minister of Finance, at the Annual Luncheon of the Canadian Women’s Club of New York,

The fourteen-page speech was remarkable because Abbott boasted about the Liberal Government's advances in social security *as a boost for economic efficiency*. Social security "strengthens the economy, increases production by assuring a more intelligent and more healthy population, lessens the haunting worry of unemployment and family illness that might otherwise impair morale and productivity, makes systematic provision in advance against the inevitable contingencies and to that extent makes it unnecessary when adversity comes for the state to step in with improvised and expensive construction or other remedial programs."<sup>75</sup>

The division of responsibilities for social programs within the federation could be difficult. Still, "even though progress has not been as rapid as some might have wished," Abbott maintained, "it has been substantial."<sup>76</sup> With Unemployment Insurance, Family Allowances and Old-Age Pensions, he added, federal spending on social security had multiplied tenfold over the previous ten years. Ottawa had finally drawn the link between social equity and economic efficiency. The Australians likely gloated about their more adaptable federation and their superior programs.

### **St. Laurent Wins The Election And The Lobbying Begins Again**

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January 15<sup>th</sup>, 1949," National Archives of Australia: Canada – Internal – General. Series number: A1838, Control symbol: 229/1/1 PART 1, Barcode: 1603769. p. 2.

<sup>75</sup> "Report On Canada In 1948: Address by the Honourable Douglas Abbott, Minister of Finance, at the Annual Luncheon of the Canadian Women's Club of New York, January 15<sup>th</sup>, 1949," p. 8.

<sup>76</sup> "Report On Canada In 1948: Address by the Honourable Douglas Abbott, Minister of Finance, at the Annual Luncheon of the Canadian Women's Club of New York, January 15<sup>th</sup>, 1949," p. 9.

After seven months in power, St. Laurent and his Liberals handily won the election in late June 1949 with just under fifty per cent of the vote. All federal parties in that election – the Progressive Conservatives, the CCF and the Social Credit Party – supported a national health insurance program. Immediately after that vote, 80 per cent of respondents told pollsters that they backed a government-funded health plan to which they would make monthly contributions.<sup>77</sup>

Saskatchewan Premier Douglas did not waste a minute. By mid-July, he was again pushing St. Laurent to reconvene the 1945-1946 Conference to deal with the social security measures outlined in the Green Paper. “The problems which the Federal Government recognized as crying for attention then are even more pressing now,” he wrote in a three-page letter on July 15, 1949.<sup>78</sup> Saskatchewan had implemented hospital insurance in 1947, which was “placing a very heavy financial burden upon the individual taxpayer and upon the provincial treasury.”<sup>79</sup> Douglas wanted to discuss a similar plan for all Canadians, so that “some system of prepaid health services [could be] established in some of the provinces at least.”<sup>80</sup>

He also wanted to talk about health insurance, universal old-age security, federal contributions of fifty per cent to pensions for those between the ages of sixty-five and seventy – and the maintenance of full employment. Douglas pointedly did not

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<sup>77</sup> Making Medicare: The History of Health Care in Canada, 1948-1958.  
<http://www.historymuseum.ca/cmc/exhibitions/hist/medicare/medic-4h01e.shtml>

<sup>78</sup> Saskatchewan Premier T. C. Douglas to Prime Minister Louis St. Laurent, July 15, 1949, File: Correspondence Between Dominion and Provinces Re: Conference, LAC, RG 19, Series E21 Volume 3442. p. 1.

<sup>79</sup> Saskatchewan Premier T. C. Douglas to Prime Minister Louis St. Laurent, July 15, 1949, p. 2.

<sup>80</sup> Saskatchewan Premier T. C. Douglas to Prime Minister Louis St. Laurent, July 15, 1949, p. 2.

ask for specific federal help with his program of hospital insurance – but the hint was there. St. Laurent replied almost five weeks later on August 18 – “after a much appreciated holiday” – with the cautionary observation that he first had to get the tax-rental deals for 1952-1957 renewed. Anyway, “more progress can be made ...[through] frank discussions with individual provincial administrations about separate concrete questions.”<sup>81</sup> It was a polite brush-off.

Other Premiers wistfully remembered the Green Paper. In early August 1949, Manitoba Premier Douglas Campbell asked St. Laurent to tackle the list of public programs that the previous conference had considered. But he had a fascinating caveat: “Our first concern in Manitoba would be in regard to the development of plans to insure the financial stability of the provinces and to develop sound productive policies on public investment, on development and conservation of natural resources, on social security measures of various sorts, and on measures designed to encourage industrial and agricultural development generally.”<sup>82</sup> The Liberal-Progressive Premier was obliquely asking for some form of equalization to ensure that Ottawa and the provinces could work together “to improve the general welfare of Canada.”<sup>83</sup> The poorer provinces clearly had a realistic idea of what their voters wanted, what their governments could afford to provide – and *what they needed from Ottawa* to make up the difference. He, too, got nowhere initially.

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<sup>81</sup> Prime Minister Louis St. Laurent to Saskatchewan Premier T. C. Douglas, August 18, 1945. , File: Correspondence Between Dominion and Provinces Re: Conference, LAC, RG 19, Series E21 Volume 3442. p. 2.

<sup>82</sup> Manitoba Premier Douglas Campbell to Prime Minister Louis St. Laurent, August 6, 1949. File: Correspondence Between Dominion and Provinces Re: Conference, LAC, RG 19, Series E21 Volume 3442. p. 1.

<sup>83</sup> Manitoba Premier Douglas Campbell to Prime Minister Louis St. Laurent, August 6, 1949.



But, eventually, St. Laurent moved unhurriedly to work. He was a corporate lawyer but, more important, he had been the Francophone Counsel to the Rowell-Sirois Royal Commission. He understood perfectly that the constitution was an impediment to any reshuffling of federal and provincial revenues and responsibilities. Perhaps worse, as St. Laurent grasped, Canada had no amending formula: Convention *seemingly* dictated that all governments had to assent to major changes – and then the approval of the British Parliament was required.

So the Prime Minister embarked on a series of federal-provincial conferences, starting with the amending formula. It was a calculated move to address that basic federal problem, which bred political instability. But only oblivious constitutional insiders could love it. The initial gathering in Ottawa in January 1950 tackled the patriation of the constitution with an amending formula. (This would be the first conference devoted exclusively to this topic. It would also be the first that Newfoundland attended since it had joined Canada in 1949.) The Conference failed.

Meanwhile, the appeals for social security grew more insistent. In July 1950, the Canadian Federation of Business and Professional Women's Clubs petitioned Ottawa for "a retirement pension plan without a means test."<sup>84</sup> That would remove an expense from the provinces – which had covered twenty-five per cent of the cost of pensions for low-income seniors over seventy since 1931 – and put the onus on

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<sup>84</sup> *With Enthusiasm and Faith: History of The Canadian Federation of Business and Professional Women's Clubs – La Fédération Canadienne des Clubs de Femmes de Carrières Libérales et Commerciales – 1930-1972*, compiled by Elizabeth (Bess) Forbes (Published by The Canadian Federation of Business and Professional Women's Clubs, December 1974), p. 60.

Ottawa. There was no immediate response. The elegant St. Laurent understood the issue in theory – but he floated above those women’s real world.

The First Ministers met again in late September in the Quebec Legislative Assembly. Once again, they discussed constitutional patriation and their deadlocked hunt for an amending formula. The September 1950 Conference also failed.

Although St. Laurent took his time, however, he eventually pulled out a plum for the social activists. In late 1949, the Prime Minister had proposed a third conference for December 1950 – and he had asked the Premiers for suggestions for the agenda. Six provinces had deluged his office with suggestions, including the expansion of health services through medical and hospital insurance, unemployment assistance for employable and unemployable persons, and the adoption of a minimum standard for educational opportunity.

Newfoundland deferred to the suggestions of its peers. Quebec did not respond but federal officials cited Premier Maurice Duplessis’s frequent references to “the problems relating to the exclusive rights of the provinces in the matter of insurance, unemployment, and radio broadcasting, etc., etc.”<sup>85</sup> (The First Ministers should have paid more attention to that warning.)

But it was also clear that the provinces were well aware of the problem of fiscal inequalities among their governments. New Brunswick, Prince Edward Island and Saskatchewan directly asked for National Adjustment Grants; Ontario proposed

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<sup>85</sup> “Items for the agenda as proposed by provincial governments,” Interdepartmental Committee On The Federal-Provincial Conference, Confidential, F-P (G) Document No. 14, September 9, 1950. File: Cabinet Committee on the Dominion-Provincial Conference, LAC, RG 19, Series E21, Volume 3442. p. 1.

subsidies based on fiscal need to “assure a *minimum* standard of public services.”<sup>86</sup> Prince Edward Island wanted an overhaul of federal subsidies coupled with the “transfer of certain existing services to federal jurisdiction.”<sup>87</sup> Saskatchewan proposed federal assistance to the provinces for capital financing, while Manitoba wanted a review of federal grants “in the light of increasing municipal costs.”<sup>88</sup> It was an expansive and expensive list.

But St. Laurent’s senior civil servants had almost certainly seen a Bank of Canada review of the proposed Social Security payments to individuals in late June 1950, which parsed the varying program suggestions – and then raised the tricky issue of dependency. Social Security payments had an effect on those who received them and on those who funded them through insurance contributions and taxes. If the rates of benefits were too high in relation to earnings among potential beneficiaries, “some individuals might work less, and make less provision for their own future security, than they should or otherwise would.”<sup>89</sup> As well, the higher taxes that would be required to pay for social security might impair the incentive to work or invest.

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<sup>86</sup> “Items for the agenda as proposed by provincial governments,” Interdepartmental Committee On The Federal-Provincial Conference, Confidential, F-P (G) Document No. 14, September 9, 1950. File: Cabinet Committee on the Dominion-Provincial Conference, LAC, RG 19, Series E21, Volume 3442. pps. 1-3. Quotation from page 1. My italics.

<sup>87</sup> “Items for the agenda as proposed by provincial governments,” p. 1.

<sup>88</sup> “Items for the agenda as proposed by provincial governments,” p. 2.

<sup>89</sup> Federal Social Security Payments, Bank of Canada, June 28, 1950, LAC, RG2, Vol. 126, File D-40 (Vol. 1) 1949-1950 (July) Dominion-Provincial General Relation 1950 General Conference. p. 5. Only thirty copies of this document were made at the time.

There was, however, no way to determine what would happen with the proposed new programs: "These effects will only become apparent over a period of time."<sup>90</sup>

The memo added that federal social security payments including Family Allowances had already raised the purchasing power of the recipients by nearly five times the amount that such payments had provided in 1938. Viewed in terms of the total personal expenditure on consumer goods and services, those social security payments were nearly three times as large as those before the war.<sup>91</sup> The Bank of Canada clearly viewed further expansion of social security as a gamble.

Four months later, the Privy Council Office produced a 17-page report on federal-provincial relations since Confederation, detailing the constitutional provisions, the First Ministers' meetings, the departmental meetings, the administrative collaboration, the royal commissions, the delegations of administrative power and the proposals for cooperative machinery.<sup>92</sup> It was exhaustive – and no doubt exhausting for its readers. But its first appendix was notable for its examination of cooperative machinery in the United States and Australia, including the Premiers' frequent conferences, the Loan Council and the Grants Commission.<sup>93</sup>

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<sup>90</sup> Federal Social Security Payments, Bank of Canada memorandum, June 28, 1950, File: D-40 (Vol. 1) 1949-1950 (July) Dominion-Provincial Relation 1950 General Conference, LAC, RG 2, Volume 126. p.5. There is no name on the memorandum.

<sup>91</sup> Federal Social Security Payments, Bank of Canada memorandum, June 28, 1950, p. 3.

<sup>92</sup> A Report On Federal-Provincial Co-operation, Federal-Provincial General Conference 1950, Privy Council Office, October 1950. LAC, File D-40-D (Vol. 2) 1950 Filed Separately (FPG) Documents, RG2, Series 18, Volume 151. Pps. 1-17. Notation says Document No. 19.

<sup>93</sup> A Report On Federal-Provincial Co-operation, Federal-Provincial General Conference 1950, Privy Council Office, October 1950, p. 16.

Perhaps overwhelmed by such warnings and prospects, St. Laurent placed limitations upon the upcoming Conference agenda in October 1950 because of “the uncertainty that exists as to the character of the international conditions with which the economy will be faced” – and the previous failure to deal with constitutional limitations on Ottawa’s role in social security.<sup>94</sup> Under the circumstances, this third First Ministers’ meeting of 1950 would be restricted to discussions about the tax-rental deals and Old Age Pensions – with the possibility of establishing sub-committees on other issues.

Discouraged, Tommy Douglas wrote again: He realized that St. Laurent was hesitant to expand social security because of the cost of responding to international threats. “[But] the home front is equally as important as the international front. We have always taken the position that the best way to defend democracy is to remove those social and economic forces that tend to undermine it.”<sup>95</sup> That argument – which maintained that social security, housing and unemployment assistance was an antidote to Communism – went nowhere. St. Laurent replied that the majority of Premiers were willing to restrict their discussions to those issues. Douglas agreed to abide by those terms – but he reserved the right to push for the expansion of the agenda after those items had been handled. If that did not appeal to the First

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<sup>94</sup> Prime Minister Louis St. Laurent to Ontario Premier Leslie M. 90, October 11, 1950. File: Correspondence Between Dominion and Provinces Re: Conference, LAC, RG 19, Series E21 Volume 3442. p.2.

<sup>95</sup> Saskatchewan Premier T. C. Douglas to Prime Minister Louis St. Laurent, October 26, 1950, File: Correspondence Between Dominion and Provinces Re: Conference, LAC, RG 19, Series E21 Volume 3442. p.1.

Ministers, “the very least that ought to be done” would be to create sub-committees to produce reports for another conference in 1951.<sup>96</sup>

Other groups were adamant about the need for expanded social programs. In November 1950, superintendent Reverend J. Lavell Smith of the Queen Street and Church of All Nations, which was affiliated with the United Church of Canada, asked the federal secretary for the Inter-Departmental Committee for the upcoming Conference to remember “that we still have the unemployed with us, in considerable numbers.” His church was a block away from the Unemployment Insurance Office in downtown Toronto. “And on these wintry days, we are having, numbers of men come to us, looking for a meal, a pair of shoes and overcoat, or a night’s lodging.” He asked that the Conference consider “this ever present problem.”<sup>97</sup>

Two weeks later, in December 1950, Elizabeth DeWitt, secretary to the board of directors of the Visiting Homemakers Association of Toronto, asked the same federal secretary for the upcoming Conference to ensure that the First Ministers considered assistance for the unemployed employables who had exhausted their Unemployment Insurance. “Last winter a number of families which were known to our agency suffered hardships due to the present policy of not giving assistance to unemployed employable persons when it was impossible for them to secure work in

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<sup>96</sup> Saskatchewan Premier T. C. Douglas to Prime Minister Louis St. Laurent, November 20, 1950, File: Correspondence Between Dominion and Provinces Re: Conference, LAC, RG 19, Series E21 Volume 3442. p. 1.

<sup>97</sup> Reverend J. Lavell Smith, superintendent of the Queen Street and Church of All Nations, the United Church of Canada, to R.G. Robertson, secretary of the inter-departmental committee of the Federal-Provincial Conference, November 25, 1950. LAC, RG2, Vol. 149, File D-40 (volume 1a) Dominion-Provincial Relations - General. p. 1.

this area.”<sup>98</sup> DeWitt added that the association had already forwarded a similar plea to the Ontario government.

Neither the Reverend Smith nor De Witt suggested which level of government should pay for such social assistance – or administer it. Nor did they deal with the fiscal inequalities among the provinces. That was perhaps because they lived in relatively wealthy Ontario – but it is more likely that they did not even consider this challenge. The problem of the unemployed employables who did not qualify for UI would become more severe as the economy worsened in the mid-1950s.

The notion of stability was central to all of these competing pre-Conference discourses. St. Laurent saw the centralization of revenues in terms of economic stability and social cohesion. He also viewed his careful economic stewardship as the key to his continued political hegemony. Premiers such as Quebec’s Maurice Duplessis viewed centralization of revenues and federally administered social programs as a threat to his province’s social cohesion and constitutional rights – and to *his* hegemony.

Wealthier provinces fretted that Ottawa would succumb to the temptation to buy political popularity with lavish social programs that would endanger the nation’s economic security. Premiers such as Tommy Douglas and many advocacy groups saw St. Laurent’s innate caution as a threat to social cohesion within the Rest of Canada and to the expansion of social security. Over the next five years, the impatience of those poorer Premiers and national advocacy groups would start to

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<sup>98</sup> Elizabeth DeWitt, secretary to the board of directors of the Visiting Homemakers Association of Toronto to R.G. Robertson, secretary of the inter-departmental committee of the Federal-Provincial Conference, December 7, 1950. LAC, RG 2, Vol. 149, File D-40 (volume 1a), 1950-51, Dominion-Provincial Relations – General. p. 1.

erode the federal Liberals' political hegemony – although St. Laurent would win another majority with a reduced number of seats in August 1953.

### **The Dominion-Provincial Conference of December 1950**

So many groups wanted the Prime Minister and the Premiers to consider more components of the Social Security package. But, throughout November, the federal cabinet committee on the Dominion-Provincial Conference quietly rejected any move to expand health insurance because of the cost.<sup>99</sup> In January 1950, it had already quietly shelved any attempt to provide more aid to the unemployed because they were a provincial responsibility – and because Ottawa was theoretically committed to full employment.<sup>100</sup> Senior bureaucrats had confirmed that dismissal on November 27 at the interdepartmental committee on social security, reasoning that unemployment levels were not above normal – and Ottawa had widened the coverage of Unemployment Insurance.<sup>101</sup>

The only program that the ministers could not dismiss off-hand was an expansion of the Old-Age Pension, which led to a lengthy cabinet meeting on November 7, 1950. Finance Minister Douglas Abbott argued that a contributory plan, which would cost more than \$200 million, would fuel inflation.

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<sup>99</sup> Minutes of The Cabinet Committee on Federal Provincial Relations, November 28, 1950, Secret. File: Cabinet Committee On The Dominion-Provincial Conference 1950, LAC, RG 19, Series E21, Volume 3442, p. 3.

<sup>100</sup> Minutes of The Cabinet Committee on Dominion-Provincial Relations, January 3, 1950, Secret. File: Cabinet Committee On The Dominion-Provincial Conference 1950, LAC, RG 19, Series E21, Volume 3442, p. 3.

<sup>101</sup> Minutes and so on re: Interdepartmental Committee on Social Security, General File, Dominion-Provincial Conference: 1950. File 135-0-167 General File, RG 19, Series E-2-C, Volume 92. p. 2.



His colleague, Health Minister Paul Martin, pointed out that the Liberals had campaigned on this proposal, which they had first advocated in 1945. They had appointed a joint Parliamentary Committee, which had reported on the proposal favorably in June 1950 to all-party acclaim. If the Liberals did not expand the program, he maintained, there would be huge pressure to raise the actual amount of the pension – which would also prove costly. Anyway, relatives were already spending heavily on the upkeep of the elderly: federal payments would simply be a substitute for that spending, not inflation-fueling new spending.<sup>102</sup> Martin got everyone's attention – and Ottawa focused on models.

When the First Ministers met in early December 1950, their agenda was largely limited to Old Age Pensions, which Ottawa would administer as a universal right and which would not be based on need, and to the renewal of the tax agreements. But they created a sub-committee on Old-Age Security that split such pensions into two tranches: Ottawa would administer the contributory system for those aged seventy and over; Ottawa and the provinces would share the costs of pensions for those between the ages of sixty-five and sixty-nine, based on a means test, but the provinces would administer them. As Health Minister Martin told them, public support ensured that this should be the next major social program:

The Federal Government recognized that the programme, as proposed, was a very expensive one. Combined expenditures of the Federal and Provincial Governments with respect to old age security might well be trebled if the plan were approved and established. However, it was felt that the general public were

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<sup>102</sup> Cabinet Committee on Federal-Provincial Relations, November 7, 1950, Secret. File: Cabinet Committee On The Dominion-Provincial Conference 1950, LAC, RG 19, Series E21, Volume 3442, p.ps. 1-4.

prepared to pay directly for this important improvement in its domestic security.<sup>103</sup>

But a constitutional amendment would be required to shift responsibility for old-age pensions to Ottawa. The pace was glacial – because of the mechanics of federalism and St. Laurent’s inclinations. But the ministers would eventually hammer out four approaches to this expansion, including one for an Old Age Security Tax that was eventually adopted.<sup>104</sup>

The Premiers were generally amenable to Martin’s proposal: even Quebec Premier Maurice Duplessis agreed to refer the required amendment to the Legislative Assembly– although he did not promise to support it. In the end, no province could resist Ottawa’s highly popular offer of expanded social security – especially when Ottawa would fund the pension by itself *and there would be no need for new federal transfers to the provinces*. Ottawa was already paying seventy-five per cent of the means-tested Old-Age Pension for those seventy and over. Old Age Security was enacted through a constitutional amendment in 1951 that took effect on January 1, 1952. But Quebec Premier Duplessis had insisted on the insertion of a clause in that constitutional amendment that asserted Quebec’s hegemony: the measure would not affect ‘the operation of any law present or future of a provincial

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<sup>103</sup> Committee on Old Age Security, Federal-Provincial Conference December 1950, Confidential. LAC, RG2, Vol. 149, D-40 (Volume 1) p. 2.

<sup>104</sup> The earmarked tax, which took effect in 1952, was actually a composite of three taxes: one on manufacturers’ selling price or the duty-paid value of items covered by the federal sales tax, a tax on personal income and a tax on corporate income.  
<http://publications.gc.ca/Collection-R/LoPBdP/MR/mr58-e.htm>

legislature' in relation to old age pensions.<sup>105</sup> The defenders of provincial rights had brushed up against the claimants for expanded social security – and they had guardedly yielded, partly because the federal payments, which went directly to elderly individuals, relieved obligations on the provincial treasury, which had been paying one-quarter of the cost.

### **The Quest For Social Citizenship Continues – With Mixed Results**

By now, every Premier in the Rest of Canada could hear the demands for social citizenship. In April 1951, the Canadian Congress of Labour reminded St. Laurent that it was stoutly backing federal efforts to combat Communism abroad. Its press release about that meeting then added: “There was also need for a social and economic program in Canada itself to give Canadians a full realization of their opportunities and *the necessity to fight* to preserve those conditions.”<sup>106</sup> The CCL also called for a program to provide “properly constructed houses” for lower-income Canadians: Ottawa should run the program on a non-profit basis so that it could “not [be] used as a means for private exploitation.”<sup>107</sup>

A year later, St. Laurent reversed that argument against the CCL executives. “He [St. Laurent] said that Canada is doing what it can to prevent a third World War, but that our share of the joint effort amounted to nearly two billion dollars, which was

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<sup>105</sup> Paul-André Linteau, René Durocher, Jean-Claude Robert, François Ricard, *Quebec Since 1930* (Toronto: James Lorimer & Company Publishers, 1986) p. 281. Also, section 94A, Constitution Act 1982.

<sup>106</sup> Canadian Congress of Labour press release, April 11, 1951, LAC, MG28, Series I 103, Vol. 174, File News Releases 1951, 174-2. p. 2. My italics.

<sup>107</sup> Canadian Congress of Labour press release, April 11, 1951.

almost fifty per cent of the entire [federal] budget of the nation.”<sup>108</sup> The defence tab was so high that Ottawa could not afford to meet the full CCL social demands – even though they were looking to Ottawa to take the lead.

But the mood of the post-war era on health care was becoming evident. As public policy expert Malcolm G. Taylor has noted:

Voluntary prepayment plans and commercial insurance were rapidly expanding their coverage, clearly demonstrating that the public wanted insurance protection against medical and hospital bills, and were willing to pay for it. But even more significant was that by 1950 government hospital insurance programs had been introduced in four provinces – Saskatchewan, British Columbia, Alberta, and Newfoundland – and all without federal subsidy. Their leaders and members of parliament constantly reminded the federal government that the time had come for the 1945 offer [the Green Paper] to be fulfilled.<sup>109</sup>

There was one powerful group that consistently backed St. Laurent in his efforts to control the pace of social spending: the Canadian Chamber of Commerce. Across the 1950s, the voluntary organization, representing almost 700 boards of trade and local chambers in ten provinces, always argued for restraint in social spending. In February 1951, the Chamber explained that it was “in sympathy with desires for expanding social security measures but points out that such goals can be achieved only if Canadian national wealth continues to increase...[New demands] must be viewed carefully in the light of new and additional financial burdens for National

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<sup>108</sup> Canadian Labour Congress Circular Letter No. 279, March 28, 1952, LAC, MG28, Series I 103, Vol. 172, File Circular Letters 1952 172-87, p. 2.

<sup>109</sup> Malcolm G. Taylor, “Health Insurance: the Roller-Coaster in Federal-Provincial Relations” in *federalism and political community: Essays in Honour of Donald Smiley*, eds. David P. Shugarman and Reg Whitaker (Peterborough, On.: Broadview Press Ltd., 1990).

Defence.”<sup>110</sup> Any extra spending should be only for defence. “Expenditures for non-Defence items must be eliminated or indefinitely postponed until the threatening clouds which are on the horizon have been dissipated.”<sup>111</sup>

It repeated that mantra throughout the ensuing years. In October 1954, the Chamber urged restraint to preserve Ottawa’s economic health – and to curb the role of the state in meeting individual needs: “In the field of social welfare the Chamber believes that careful distinction must be drawn between what is socially desirable as an ultimate aim and that which can be achieved without damaging the system which makes our social welfare advances possible. Individuals should be encouraged to make every effort to provide for their own future.”<sup>112</sup> Such appeals to self-sufficiency were out of step with many social advocates, at least those in the Rest of Canada.

### **The Quarrel With Quebec Commences**

But there were multiple and often conflicting pressures on St. Laurent’s shoulders. On June 1, 1951, the Royal Commission on National Development in the Arts, Letters and Sciences – otherwise known as the Massey Commission – reported after more than two years of complicated work. Almost three weeks later, in

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<sup>110</sup> “Submission To The Minister Of Finance And The Minister of National Revenue regarding Canada’s Fiscal Policy, The Income Tax Act, and the Dominion Succession Duty Act, February 23, 1951, The Canadian Chamber of Commerce, LAC, Department of Finance, Department files – briefs from organizations and associations, RG 19 E2C, Volume 116, File 164-B-1951 A. p. 4.

<sup>111</sup> “Submission To The Minister Of Finance And The Minister of National Revenue regarding Canada’s Fiscal Policy, The Income Tax Act, and the Dominion Succession Duty Act, February 23, 1951.

<sup>112</sup> “Policy Declarations And Resolutions, 1954-1955,” The Canadian Chamber of Commerce, LAC, RG 19, Volume 624, File (1955) 164 B. pps. 27-28.

accordance with its recommendations, Prime Minister St. Laurent offered to provide \$7.1-million in per-capita federal grants to Canada's universities – or roughly fifty cents per student. St. Laurent stressed that Ottawa's money was "a necessary supplement" to existing provincial funding – and university authorities should use it "to maintain quality rather than to increase facilities."<sup>113</sup>

The Quebec Government viewed the federal plan with distrust: in the long run, the ensuing controversy would become one of the key factors behind the creation of equalization. As historian Michael Behiels notes, Quebec's francophone universities put pressure on Ottawa to negotiate a deal with the Duplessis government so that they could accept money under "this audacious and unprecedented scheme of statutory nonconditional grants to Canadian universities."<sup>114</sup> For the first year, a Quebec-Ottawa committee administered the fund for Quebec – and the provincial representative on that committee countersigned the cheques. But, as Behiels relates, this approach could not last. "Sensitive to the loud outcry from nationalist circles and hoping perhaps to keep Quebec universities under his government's political control, Duplessis refused to renew the arrangement after 1952."<sup>115</sup>

In effect, Quebec was leading the post-war provincial resistance to Ottawa's use of its spending power – effectively an anti-Rowell-Sirois movement. The assertion of provincial rights was as old as Confederation itself. But this powerful Quebec nationalist movement was developing throughout the 1950s because of the clash of

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<sup>113</sup> "Universities to Receive \$7,000,000 Ottawa Aid; CBC Also to Get Help," in *The Globe and Mail*, Wednesday, June 20, p. 3.

<sup>114</sup> Michael D. Behiels, *Prelude to Quebec's Quiet Revolution: Liberalism Versus Neo-Nationalism, 1945-1960* (Kingston and Montreal: McGill-Queen's University Press, 1985) 206.

<sup>115</sup> Behiels, 206.

two post-war forces. On one side, there was Ottawa's push to centralize revenues and then use its spending power to stimulate the economy and to fund social security measures for all citizens. On the other, there was Quebec's growing alarm as Ottawa started to spend in fields of provincial responsibility, nudging into its place in the cultural heart of French Canada. As Simeon and Robinson have described, this was a encroachment on Quebec's territorial federalism with its emphasis on the protection of language and culture.<sup>116</sup>

As such, Quebec was the only province that did not sign the second post-war tax rental agreements that ran from 1952 to 1957. Ontario did sign – much to Quebec's chagrin – so “Quebec found itself alone in the fight for the autonomy of the provinces.”<sup>117</sup> Other provinces drove hard bargains with Ottawa over the size of their fiscal need grants and abatements. But Quebec was the provincial-rights force on one side of the tightening pressures on St. Laurent. Ottawa did offer a seven-per-cent abatement on corporate taxes and a five-per-cent abatement on personal income taxes to Quebec taxpayers. (It had initially offered an abatement of five percentage points to Ontario and Quebec for the second tax-rental deal.) But Duplessis refused to create a provincially administered personal income tax – “no matter how small.”<sup>118</sup> The province had lost more than \$76-million in federal

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<sup>116</sup> Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism*. (Toronto: University of Toronto Press, 1990) pps. 125, 129, 139-145.

<sup>117</sup> <http://faculty.marianopolis.edu/c.belanger/quebechistory/federal/taxrent.htm>

<sup>118</sup> Behiels, 196.

compensatory grants between 1947 and 1952 because of Duplessis' line-in-the-sand.<sup>119</sup>

The Premier fought back. In 1953, he established the pivotal provincial Royal Commission on Constitutional Problems, which Judge Thomas Tremblay chaired. In late 1953, well before their final report, the commissioners urged Duplessis to resist Ottawa's fiscal domination. The province was also experiencing "an increasingly difficult time finding enough revenue to finance all of the highways, bridges, school, and hospitals that were required."<sup>120</sup> In 1954, Duplessis finally introduced a provincial income tax equal to fifteen per cent of the federal rate. It was a direct challenge: Quebec taxpayers were now paying double taxes. Duplessis also contended that Quebec had priority in the field of direct taxation. "A lively struggle ensued between the two governments."<sup>121</sup>

This was a pivotal event in the creation of equalization. Ottawa's push to centralize revenues was creating political instability. Quebec's strong assertion of provincially based rights – along with increasing resistance from other provinces such as Ontario for fiscal reasons – delayed the expansion of social security because there was no remedy for inequality in provinces that did not rent their taxes. It was a small indication of the growing provincial resistance to Ottawa that would reappear so strongly during the Quiet Revolution.

Duplessis had strong supporters among Quebec groups, which followed the dispute over the tax-rental accords with far more interest than many groups in the

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<sup>119</sup> Behiels, 199.

<sup>120</sup> Behiels, 199.

<sup>121</sup> Paul-André Linteau, René Durocher, Jean-Claude Robert, François Ricard, *Quebec Since 1930* (Toronto: James Lorimer & Company, Publishers, 1991) 282.



Rest of Canada. In January 1954, the Quebec Division of the Canadian Manufacturers' Association told the Tremblay Commission that there were many good reasons to resist the tax-rental deals. "For example, such a centralized system would provide a government of socialistic tendencies with a ready-made instrument of attack not only on provincial prerogatives but on free enterprise as well, a state of affairs which all would have just cause to deplore."<sup>122</sup>

Duplessis had also cultivated the prelates and priests of the Roman Catholic Church. He "prolonged the significance of the Church in matters that have subsequently become secular: education, hospitalization, public assistance."<sup>123</sup> In turn, "the higher clergy approved of Duplessis" for reasons that "were generally rooted in ideology, or at least policy, especially provincial autonomy and Duplessis's incessant representation of himself as the more Catholic candidate."<sup>124</sup>

As historian Behiels notes, Ottawa's activist fiscal federalism was partly responsible for the rise of neo-nationalism in Quebec:

It became increasingly clear ...that Ottawa's decision to forge ahead with Keynesian-inspired fiscal and monetary policies and the creation of a highly centralized social welfare state had altered in crucial ways the prevalent conception of federal-provincial relations.. Neo-nationalists felt strongly that the new federalism was a serious threat to provincial autonomy and therefore to the French-Canadian nation.<sup>125</sup>

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<sup>122</sup> Memorandum of Submissions to the Royal Commission of Inquiry on constitutional problems, January 27, 1954 by The Canadian Manufacturers' Association (Quebec Division). LAC. RG 19, Volume 624, File 164#201 to 282. p. 12.

<sup>123</sup> Conrad Black, *Render Unto Caesar: The Life and Legacy of Maurice Duplessis*. (Toronto: Key Porter Books, 1998) p. 401.

<sup>124</sup> Conrad Black, *Render Unto Caesar: The Life and Legacy of Maurice Duplessis*, p. 399.

<sup>125</sup> Behiels, 185-186.

After months of fierce skirmishes, St. Laurent delivered a particularly tough challenge to Duplessis at the Quebec Reform Club on September 18, 1954. But the Prime Minister knew that the situation was untenable: the impasse was now a threat to national unity. St. Laurent *had* to find a gracious exit. The two men met *privately* at Montreal's Windsor Hotel in early October to draft the outlines of a compromise. At a cabinet meeting in January 1955, the Prime Minister argued that the only solution to the standoff was to make an offer that would be available to *all* provinces. As the Top Secret cabinet records reveal, the Prime Minister concluded: "No matter how far the Federal government went, the government of Quebec would not be satisfied...[but] any serious Federal proposal, even though it might not satisfy Mr. Duplessis, would at least show the people of Quebec that the Federal authorities had honestly tried hard to meet their point of view and had sought to relieve, at least in part, those who suffered from double taxation."<sup>126</sup>

Accordingly, Ottawa offered to reduce its income tax by ten per cent for all provinces where a provincial income tax was levied – and to apply that move retroactively to Quebec for 1954. On January 19, 1955, Duplessis accepted this truce. In a subsequent telephone call with St. Laurent, he also agreed to delete the assertion of provincial priority in direct taxation from the provincial income tax act.<sup>127</sup> That scuffle "had wider significance. For the first time since the war, Ottawa

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<sup>126</sup> Records of Cabinet meeting, January 11, 1955, Top Secret, RG2, Vol. 2657, file 4 January to 1 March, 1955. p. 4.

<sup>127</sup> Records of Cabinet meeting, January 25, 1955, Top Secret, p. 5.

had to draw back and temper its new national policy [of tax-rental accords and abatements] to take the demands of a province into account.”<sup>128</sup>

### **The Australians Laud The Centralist Approach**

St. Laurent’s initially belligerent response to the tense situation with Quebec deeply impressed the Australians, particularly High Commissioner Sir Douglas Copland, who was an academic and an economic analyst. In a “confidential” five-page memorandum to Australia’s External Affairs Minister R. G. Casey, Copland outlined the standoff over jurisdictions. Dubbing this personal memorandum as “The Measure Of The Man,” Copland first reviewed St. Laurent’s career as well as the political situation in Quebec: “In all federations there are usually one or more units who find it difficult to fit into the federal structure. This is probably more so in Canada than in any other modern federation, because the Province of Quebec is jealous of its French origin, its language, its culture and, above all, its religion...The law in Australia on [taxation] is much more uncompromising than it is in Canada.”<sup>129</sup>

Then Copland recounted the reputations of St. Laurent – who was “the most distinguished living French Canadian” – and Duplessis – who wanted to position himself as “the defender of the faith, the upholder of French culture in Canada, the

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<sup>128</sup> Linteau, Durocher, Robert, Ricard, *Quebec Since 1930*. p. 282.

<sup>129</sup> “The Measure Of The Man: Confidential” with covering letter dated December 6, 1954, Australian High Commissioner Sir Douglas Copland to Australian External Affairs Minister R. G. Casey, National Archives of Australia: Canada – Internal – General. Series number: A1838, Control symbol: 229/1/1 PART 1, Barcode: 1603769, p. 2.

guardian of autonomy.”<sup>130</sup> The two men had clashed on several occasions throughout the autumn, Copland reported, but it was St. Laurent’s defiant speech at the Quebec Reform Club on September 18 that impressed the High Commissioner. “He [St. Laurent] was able to show...that, above all, the path to glory was to drop any policies that would divide the nation into a minority of little Canadians and a majority of those who believed in the expansion of Canada as one nation.”<sup>131</sup> The Australian did not grasp the importance or the force of provincial identity in Canada.

But economist Copland was also a source for Canada’s files on Australia. The Bank of Canada Archives include a thirty-page paper on post-1945 Australian Economic Policy and Economic Development that the High Commissioner delivered to the American Philosophical Society in Philadelphia in 1953. He surveyed everything from national income to wage movements to Australia’s administrative structure. His prose was dense; he included multiple lists of statistics; he did not address the workings of the Commonwealth Grants Commission.

But when he outlined the development of social policy in Australia, he added a fierce observation: such programs had not evolved as part of an economic strategy – nor was their impact on the economy as a whole taken into account. “It is not easy to do this in a unitary state,” he added. “[It is] still more difficult in a federal structure where governments may be jealous of their prerogatives and unduly concerned with

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<sup>130</sup> “The Measure Of The Man: Confidential” with covering letter dated December 6, 1954, Australian High Commissioner Sir Douglas Copland to Australian External Affairs Minister R. G. Casey, National Archives of Australia: Canada – Internal – General. Series number: A1838, Control symbol: 229/1/1 PART 1, Barcode: 1603769, p. 2.

<sup>131</sup> “Submission To The Minister Of Finance And The Minister of National Revenue regarding Canada’s Fiscal Policy, The Income Tax Act, and the Dominion Succession Duty Act, February 23, 1951, p. 5.

their own immediate interests.”<sup>132</sup> The belated wisdom of grasping the connection between economic policies and social programs would have resonated in Canada.

### **The Tremblay Report, Quebec and Equalization**

The five-volume Tremblay Royal Commission report on federalism brought sociological depth to Quebec’s resistance. More importantly, although almost overlooked at the time, it singled out fiscal inequality as a huge impediment to the expansion of social services within the federation. Tabled in 1956, it espoused a complicated plan: All provinces should take over the taxation of revenues earned within their boundaries; they should also agree to redistribute taxes on revenues earned from inter-provincial trade to the poorer provinces such as Manitoba; finally, Ottawa should send money from its remaining revenues to the Maritime Provinces for “social equalization...to assure them the same services as the rest of the country” – as long as all provinces endorsed the transfer.<sup>133</sup> The report did not grapple with the difficult problem of distinguishing revenues earned from trade within the province from revenues earned from trade with other provinces. But it did grasp the idea that it was necessary “to assure the really handicapped provinces of social services in conformity with the minimum standards of the country as a whole.”<sup>134</sup>

Significantly, the report maintained that the Constitution “makes no provision for equalization in any form...the federal government claims to provide therefor, but

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<sup>132</sup> Sir Douglas Copland, “Economic Policy And Economic Development In Australia From 1945: A Study in Economic Administration,” p. 8.

<sup>133</sup> *The Tremblay Report*, ed. David Kwavnick (Toronto: The Carleton Library, McClelland and Stewart Limited, 1973) 218.

<sup>134</sup> *The Tremblay Report*, ed. David Kwavnick, p. 218.

this is through an interpretation of its powers which, in our opinion, is inadmissible, (the 'unlimited' taxing power and the 'absolute' spending power). It is essential that this situation be regularized."<sup>135</sup>

In effect, the Tremblay report called for a system of equalization payments that the provinces would organize – and Ottawa could administer. Duplessis was able to set aside those recommendations with the excuse that Ottawa had responded to his demands. In reality, "its conclusions went farther than he had wished, especially with respect to the province's assumption of social programs and to educational reform."<sup>136</sup> But the report's statement of principles would become an operational mantra. As it proclaimed: "By reason of its history, as well as of the cultural character of its population, Quebec is not a province like the others, whatever may be said to the contrary. It speaks in the name of one of the two ethnic groups which founded Confederation...It is the only one able to represent one of these two partners, just as it alone may determine its reasons for refusing federal largesse."<sup>137</sup>

By the mid-1950s, of course, Ottawa was moving toward unconditional equalization – if only to secure the federation's continued existence and Quebec's continued presence. Such payments could ensure relative fiscal equality among the provinces without federal interference in provincial affairs – or the need to sign tax rental agreements. Quebec's assertion of its provincial rights as a founding partner

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<sup>135</sup> *The Tremblay Report*, 218.

<sup>136</sup> Michael Sarra-Bournet, *The Dictionary of Canadian Biography*  
[http://www.biographi.ca/en/bio/duplessis\\_maurice\\_le\\_noblet\\_18E.html](http://www.biographi.ca/en/bio/duplessis_maurice_le_noblet_18E.html)

<sup>137</sup> *The Tremblay Report*, ed. David Kwavnick (Toronto: The Carleton Library, McClelland and Stewart Limited, 1973) 166.

of the original compact to form Canada had finally grabbed the attention of the Dominion Government.

### **The Pressure on St. Laurent Mounts**

But Quebec's line in the sand was not the only prod toward relative fiscal equality among the provinces. Labour unions and other advocacy groups were becoming increasingly impatient with Ottawa's slow-motion response to their needs. On March 27, 1952, the 360,000-member Canadian Congress of Labour asked the federal cabinet to restore price controls, impose an excess-profits tax, deal with unemployment and take action on housing, especially where there was the "greatest need" for low-rental housing.<sup>138</sup> Then the CCL turned to the lack of health insurance: "The absence of health insurance is the biggest gap in our social security system. It is high time it was filled. Health insurance has been for nearly a third of a century part of the policy of the party now in power."<sup>139</sup> It called for a Parliamentary inquiry "leading to immediate and effective action."<sup>140</sup> It did not address the issue of fiscal inequality: how would the poorer provinces pay for the services?

A year later, in the wake of the 1953-1954 budget, the CCL remained discontented: the Liberal budget had cut taxes – but the Liberals had refused to adopt national health insurance with the "excuse" that Canada could not afford it.<sup>141</sup>

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<sup>138</sup> News Release, Canadian Congress of Labour, March 27, 1952. LAC, MG28, Series I-103, Vol. 174, File: News Releases 1952 174-3, p. 2.

<sup>139</sup> News Release, Canadian Congress of Labour, March 27, 1952. LAC, MG28, Series I-103, Vol. 174, File: News Releases 1952 174-3. p. 3.

<sup>140</sup> News Release, Canadian Congress of Labour, March 27, 1952.

<sup>141</sup> News Release, Canadian Congress of Labour, February 20, 1953. LAC, MG 28, Series I-103, Vol. 172, File: Circular Letters 1953 172-90. p. 1.

Once, again, the CCL put the onus on Ottawa – with no reference to provincial fiscal inequality. But the message was clear.

Under pressure from such groups, the mood in Ottawa was becoming edgier. There had to be a way to expand social programs without further jeopardizing the federation through clumsy bids for centralized fiscal control. Canada was now more than a decade behind its fellow Dominion, Australia, in terms of expanding social programs. It was nowhere near the 1945 Green Paper goal of a relatively inclusive social safety net. Something had to give. There had to be a mechanism that could induce the richer and poorer provinces to work together for the greater good of all Canadians. Politicians could aspire. Ordinary Canadians and advocacy groups could demand expanded social programs.. But it was difficult to adjust the mechanics of federalism to meet the expectations of the mid-1950s.

Federal politicians found themselves under increasing pressure from middle-income voters who dreamed of a better world. The decade was “hardly a stable time economically” but there was also “considerable economic vibrancy.”<sup>142</sup> By the mid-1950s, despite slowdowns during the winter of 1950 and from June 1953 to September 1954, most Canadians found that their standard of living was gradually improving: suburban housing tracts would soon make “modern technology available to the average Canadian.”<sup>143</sup> That, in turn, would lead to “the broadening of a

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<sup>142</sup> Robert M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough, On.: broadview press, 1987) pps. 94, 93.

<sup>143</sup> Robert M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975*, p. 93 and Doug Owsam, *Born At The Right Time: A History Of The Baby Boom Generation* (Toronto: University of Toronto Press, 1996) p. 74.



standardized North American middle-class lifestyle.”<sup>144</sup> But, with the exception of the extension of Old-Age Security and the per-capita grants to post-secondary institutions for program improvements in the early 1950s, little had changed for so many Canadians who faced serious illness or dismal poverty.

Labour unions could rarely control their members’ votes. But they could capture the zeitgeist. In early November 1954, the CCL called for the creation of “an industrial pension plan which would provide universal pension coverage for all workers through a fund of employer-employee contributions administered by the government with pension credits accruing regardless of the changes in employment.”<sup>145</sup>

It was an early vision of the Canada Pension Plan, which the First Ministers would eventually establish in 1966, although Quebec would create a parallel Quebec Pension Plan. A few days later, eleven months after its last meeting with cabinet, the **CCL** reflected the mood of many Canadians: “The case [for health insurance] is stronger still after yet another eleven months’ further delay...The workers of Canada are becoming weary of procrastination and excuses on this subject, the more so since the drop in defence expenditure is removing one of the chief excuses of recent years.”<sup>146</sup>

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<sup>144</sup> Doug Owsram, *Born At The Right Time: A History Of The Baby Boom Generation*.

<sup>145</sup> News Release, Canadian Congress of Labour, November 12, 1954. LAC, MG28, Series I-103, Vol. 174, File: News Releases 1953-1955 174-4. p. 5.

<sup>146</sup> The Congress Memorandum, Submitted to the Government by The Canadian Congress of Labour on November 12, 1954, LAC, MG28, Series I103, Volume 282, File: Annual Memorandum to Federal Government (Canadian Congress of Labour) 1943-1955, p. 8.

Thirteen months later, in December 1955, in a presentation to St. Laurent and his cabinet, the Trades and Labor Congress of Canada “urgently requested immediate action to implement a nation-wide health insurance scheme.”<sup>147</sup> Interestingly, the TLC, which represented 600,000 affiliated members, also urged Ottawa to work with the provinces “to produce to the maximum extent possible uniformity of economic policy throughout Canada and *uniformity of labor and social legislation* with a view to reducing regional inequalities of wage and salary rates, hours of work, social security benefits, and the burden of taxation on the lower and middle income groups.”<sup>148</sup>

The TLC added that the delegates at its annual convention had called for health insurance “in the full knowledge of the constitutional difficulties...a nation-wide health insurance scheme should be government-subsidized, contributory and cover every Canadian citizen; and include medical, surgical, dental and optical care, hospitalization, provision of artificial limbs where necessary, psychiatric treatment, and competently supervised mental homes.”<sup>149</sup> It did not address the issue of fiscal inequality among provincial governments: that was a state-centred insiders’ issue.

The federation was seemingly deadlocked. While Quebec and Ontario epitomized the strength of provincial rights, advocacy groups and other provinces were pulling in the other direction toward expanded social security.

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<sup>147</sup> Press Release, The Trades and Labor Congress of Canada, December 14, 1955. LAC, MG28, Series I 103, Volume 282, File: Annual Memorandum to Cabinet, 1955 282-17. p.1.

<sup>148</sup> Press Release, The Trades and Labor Congress of Canada, December 14, 1955. LAC, MG28, Series I 103, Volume 282, File: Annual Memorandum to Cabinet, 1955 282-17. p.2. My italics.

<sup>149</sup> Press Release, The Trades and Labor Congress of Canada, December 14, 1955, pps. 3-4.

### St. Laurent Looks For Another Way

By 1955, federal politicians and bureaucrats knew that they had to rethink their approach to the renewal of the tax rental agreements, if only to halt Quebec's isolation. In his later book on those agreements, federal bureaucrat R. M. Burns dated the official birth of equalization to the aftermath of St. Laurent's tax settlement with Quebec in January 1955. In a *pivotal* letter to the other premiers after that pact, on January 14, 1955, St. Laurent explained that Ottawa was not wedded to the principle of the tax rental deals "to the exclusion of any better alternative arrangement if one could be found."<sup>150</sup> But Ottawa

had no intention of abandoning the objective of the tax rental agreements which is to make it financially possible for all provinces, whatever their tax base, to perform their constitutional functions themselves and *to provide a reasonable Canadian level of provincial services without an abnormal burden of taxation*. That is the foundation of the policy of the federal government.<sup>151</sup>

After quoting St. Laurent, Burns emphasized: "This was the first official acknowledgement by the federal government of its adoption of equalization as a basic and explicit principle of its fiscal program, as distinct from the rental of the income tax fields, since its acceptance of the Rowell-Sirois recommendations in 1941."<sup>152</sup>

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<sup>150</sup> Letter from Louis St. Laurent to all provincial premiers with the exception of Quebec Premier Maurice Duplessis, January 14, 1955 as quoted in R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*. (Toronto: The Canadian Tax Foundation, 1980). pps. 111-112.

<sup>151</sup> Letter from Louis St. Laurent to all provincial premiers with the exception of Quebec Premier Maurice Duplessis, as quoted in R. M. Burns, p. 111-112. My italics.

<sup>152</sup> R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*. 112.

That is true. There had been adjustments to the Maritime Provinces' subsidies for fiscal need in the 1920s and 1930s in the name of generosity. But St. Laurent's letter, which recognized the concept of fiscal inequality – and how to measure it in terms of services and taxation levels – was also an explicit recognition of ideas that the federal bureaucracy had quietly mulled since 1941, whenever the tax rental agreements came up for renewal.

St. Laurent had laid out the principle for every Premier to see. Now his government had to find a formula that would meet those needs – and win the acceptance of the poorer and the richer provinces. He also had to reassure Premier Duplessis that non-conditional grants, which were calculated through a transparent formula and which had no application forms, would protect Quebec's provincial rights.

A subsequent history of fiscal events during 1955 by former Privy Council Clerk Robert B. Bryce downgraded the influence of the Rowell-Sirois report on the creation of equalization. Bryce conceded that the report “did have an important but indirect effect in leading to the tax rental agreements.”<sup>153</sup> But he argued that the report and its proposals for National Adjustment Grants did not “have any significant influence on the introduction of equalization grants in 1957.”<sup>154</sup> Instead, Bryce asserted that in 1956, St. Laurent simply wanted to separate the “fiscal need” element from the tax-rental agreements: this was “Prime Minister St. Laurent's own

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<sup>153</sup> Robert B. Bryce, *Maturing in Hard Times: Canada's Department of Finance through the Great Depression*. (Kingston and Montreal: McGill-Queen's University Press, 1986) p. 218.

<sup>154</sup> Robert B. Bryce, *Maturing in Hard Times: Canada's Department of Finance through the Great Depression*. p. 218.

decision, reached after lengthy discussions with Finance, and it reflected his view that the inclusion of such a subsidy in the tax rental agreements was seriously unfair to Quebec...I was the secretary to the Cabinet at the time and very much involved in the discussions on the subject.”<sup>155</sup>

I dispute his assertion that the proposal for National Adjustment Grants did not have “any significant influence” on the introduction of equalization. It is clear that the Prime Minister wanted to be closely involved in every step in the introduction of equalization. And it is equally clear that the consideration of those grant proposals were an important part of the introductory process. Top Secret cabinet documents indicate that, in mid-March, St. Laurent set up the nucleus of a cabinet committee to work with an interdepartmental committee of bureaucrats to prepare for the upcoming federal-provincial discussions. Finance Minister Walter Harris, Justice Minister Stuart Garson and St. Laurent himself would oversee preparations for a preliminary meeting in early April with provincial representatives.<sup>156</sup> And cabinet documents throughout the ensuing three-quarters of the calendar year show that different formulas for equalization went to cabinet regularly, outlining the arithmetical and political calculations for each one.<sup>157</sup> As well, in the lead-up to the full Dominion-Provincial Conference in October 1955, Finance Ministry bureaucrats prepared full reports on equalization in Australia, the Rowell-Sirois report’s

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<sup>155</sup> Bryce, *Maturing in Hard Times: Canada’s Department of Finance through the Great Depression* p. 269.

<sup>156</sup> Federal-provincial Conference; preparation, records of Cabinet meeting, March 15, 1955, Top Secret, LAC, RG2, Vol. 2657, File 8 March to May 1955 Copy 1. p. 10.

<sup>157</sup> Minutes of cabinet meetings, September 29 to December 21 1955, Top Secret, LAC, RG2, volume 2659, File: September 29 to December 21 1955 Copy 1; conclusions of cabinet meetings, January 3 to March 1, 1956, Top Secret, RG2; Volume 5775’ File: January 3 to March 1, 1956.

proposed National Adjustment Grants, the Ontario proposal for sharing to the Dominion-Provincial Conference of 1945-1946, and the American system of variable grants.

I maintain that Bryce ignored federal history: Louis St. Laurent did not suddenly decide to separate the special grants for fiscal need from the tax-rental agreements. He had been the Francophone Counsel to the Royal Commission on Dominion-Provincial Relations. He had befriended Joseph Sirois, and convinced him to join the commission. He had endured its arduous hearings. He had asked questions of the witnesses. And, in the end, he had convinced Sirois to accept *all* of the commission's recommendations, including the call for National Adjustment Grants. Sirois later defended the report with the argument that adequate revenues were necessary for true provincial autonomy. More remarkably, as historian Penny Bryden points out, the federal finance official who espoused equalization in 1955 was J. J. Deutsch, who had been the assistant research director and then the research director for the Rowell-Sirois Commission.<sup>158</sup> (She does not make the connection with Rowell-Sirois.)

As well, in his memoirs, St. Laurent's former Clerk of the Privy Council J. W. Pickersgill, who was then in cabinet but still involved as an advisor on equalization, maintained that the Prime Minister worked closely with Deutsch on the introduction and development of equalization. He did not mention Robert Bryce in this regard. (Bryce did, however, summarize cabinet discussions of the varying formulas.)

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<sup>158</sup> P. E. Bryden, "The Obligations of Federalism: Ontario and the Origins of Equalization" in *Framing Canadian Federalism: Historical Essays in Honour of John T. Saywell*, Dimitry Anastakis and P. E. Bryden, eds. (Toronto: University of Toronto Press, 2009) p. 81.

Equalization is a thread that connects Deutsch and St. Laurent. “It was Deutsch who convinced me that the new approach would almost certainly end the dangerous isolation of Quebec, since no agreements would have to be signed and no tax fields would have to be rented to Ottawa,” Pickersgill wrote.<sup>159</sup> He added that St. Laurent liked the plan “because it could be implemented without formal agreements with any provincial government, and would, therefore, leave the federal government free to determine, on its own, how great the equalization payments would be.”<sup>160</sup>

Significantly, Pickersgill added: “The opponents of the new plan in the bureaucracy objected to it on the ground that all the provincial governments would be free to impose any taxes they liked and the simplicity and the convenience of having a single personal income tax all over Canada might disappear.”<sup>161</sup> Those “highly competent and respected senior advisers” provided Finance Minister Walter Harris with “conflicting advice” about the wisdom of equalization – until St. Laurent “became impatient with Harris.”<sup>162</sup>

As a final recollection, Pickersgill added: “It was characteristic of St. Laurent’s leadership that he left the management of the debate on equalization entirely to Harris and did not himself say a word during the enactment of a measure *for which he was uniquely responsible*.”<sup>163</sup> In effect, St. Laurent drove this process – and Harris came around to supporting it.

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<sup>159</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir* (Toronto: University of Toronto Press, 1975) p. 309.

<sup>160</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir*. p. 309.

<sup>161</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir*. p. 309.

<sup>162</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir*. pps. 309-310.

<sup>163</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir*. p. 312. *My italics*.

Perhaps this is another addition to the historical record. The cabinet documents back my assertion of the Prime Minister's involvement – and his deep familiarity with the approach of adjustment grants. St. Laurent had accepted the *principle* of equalization long before the finance ministry went to work on the *mechanics* of equalization during 1955. To repeat: As the Prime Minister told the Premiers on January 14, 1955, Ottawa would enable them “to provide a reasonable Canadian level of provincial services without an abnormal burden of taxation.”<sup>164</sup> And then he chaired the pivotal three-person cabinet committee to prepare for those discussions. The model of Australia along with the Rowell-Sirois discussions figured *heavily* in the Finance Department's papers for the politicians. The idea was there. Indeed, for Louis St. Laurent, it had been there for more than fifteen years.

But Ottawa's tense relationship with Quebec ensured that it could not use the approach of Australia's Commonwealth Grants Commission or the Rowell-Sirois report: it could not use expenditure needs as a basis for any calculation. As Douglas H. Clark, who became the federal expert on equalization in the 1970s into the 1990s, later explained, that approach could not work in Canada: Ottawa had “relatively good data” on revenue-raising capacity but “much weaker” data on provincial spending; to obtain that spending data, Ottawa would have been too intrusive – and the consultative process might have broken down; unit costs across the provinces differed for everything from public service salaries to capital expenditures; officials could not decide if there should be a difference between so-called controllable costs

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<sup>164</sup> Letter from Louis St. Laurent to all provincial premiers with the exception of Quebec Premier Maurice Duplessis, as quoted in R. M. Burns, p. 111-112.

<sup>164</sup> R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*. 112



and uncontrollable costs; it would be difficult to disentangle other federal transfers from revenues subject to equalization; and the total provincial population might not produce “a reasonable result” for individual expenditure items.<sup>165</sup>

Over the next ten months, the cabinet committee and federal officials would refine the formula. Equalization would end Quebec’s isolation through a unilateral transfer that would require no provincial agreement. It would also lessen the endless hassles with the other nine provinces that were always bargaining for higher compensatory grants or a larger share of the personal and corporate income tax collections along with the succession duties.

Ottawa was wearing down from the constant wheedling discourses about poverty and pride – and the ever-present danger to national unity. Once St. Laurent enunciated the principle in mid-January 1955, the bureaucrats got to work. But the Prime Minister oversaw the discussions through his cabinet committee. There is no reference to Australia within the terse cabinet records. But federal-provincial fiscal arrangements with their possible formulae and political implications went to cabinet regularly. St. Laurent had understood the issues since the late 1930s.

### **The Quest for Solutions**

The dilemma was pressing. The five-year tax-rental agreements were going to expire in 1957. How could Ottawa possibly compensate poorer provinces that refused to sign the deals? How could it ensure that Quebec was not abandoned in an

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<sup>165</sup> Douglas H. Clark, “Canada’s Equalization Program: In Principle and in Practice” in *Equalization: Its Contribution to Canada’s Economic and Fiscal Progress* (Kingston, On.: John Deutsch Institute For The Study Of Economic Policy, Queen’s University, 1998) pps. 104-105.

unequal position to the rest of the provinces? Although the officials did not frame the question in this fashion, there was no doubt about the stakes: how could they keep the federation together when the price of fiscal equality among the provinces apparently remained federal control of cash earmarked for the provinces?

Throughout the summer and fall of 1955, the federal Finance Ministry churned out hundreds of pages of reports on how to cope with the provinces' unequal fiscal requirements – and what such offers to the poorer provinces could mean in discussions with the richer provinces. The Ministry effectively created a mini-industry devoted to federal-provincial fiscal relations. In a Confidential discussion paper in late June 1955 for the interdepartmental committee on the upcoming October Conference, those officials noted that wealthy Ontario did not regard the tax-rental deals “as a sound approach [to the federation’s fiscal problems]...but only as a temporary expedient.”<sup>166</sup> Ottawa would have to raise its concessions to secure the province’s consent to the tax-rental deals.

Other provinces would then demand similar concessions or abatements. And that would further isolate and penalize Quebec. “Some formula designed to reduce [Quebec’s] penalty might have to be found.”<sup>167</sup> As well, the tax-rental approach “tends to invite some provinces to become fiscally irresponsible: when they need more revenues, rather than trying to raise them through taxation, they ask the

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<sup>166</sup> Federal-Provincial Fiscal Relations: Some Possible Lines of Approach, June 17, 1955, Confidential, LAC, RG19, Volume 3880, File 5515-04 (55/2)-2. p. 2.

<sup>167</sup> Federal-Provincial Fiscal Relations: Some Possible Lines of Approach, June 17, 1955.

Federal Government to increase its grants.”<sup>168</sup> That doubt about the tax rental deals – including the worry about dependency – would persist into the autumn.

On August 30, R. M. Burns, who was then the director of the ministry’s federal-provincial relations division, summarized Ottawa’s dilemma in a five-page memorandum entitled, “Some Problems In Application Of An Equalization Formula.” As he saw it, “the stone over which the agreements have stumbled has been the heavy penalty falling on Quebec for non-compliance and this equalization plan has the very considerable merit of providing a possible solution.”<sup>169</sup> Burns added that the “outstanding attraction” of equalization grants was that Premier Duplessis would likely accept them because “they would be unconditional and would involve no form of agreement.”<sup>170</sup>

By September 1955, those bureaucrats were playing with specific models for grants based on fiscal inequality that would be separate from the tax-rental accords. In early September, Economic Policy Division official E. A. Oestreicher assembled a 32-page package on Fiscal Need Grants for Deputy Finance Minister K. W. Taylor. That included *nine* pages on the Australian experience, reviewing the history and the evolution of that formula – “the most important criticism is the complexity of its

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<sup>168</sup> Federal-Provincial Fiscal Relations: Some Possible Lines of Approach, June 17, 1955, Confidential, LAC, RG19, Vol. 3880, File 5515-04 (55/2)-2. p. 3.

<sup>169</sup> “Some Problems in Application Of An Equalization Formula” initialed RMB, August 30, 1955. LAC: Plenary Conferences: Conference of October 3, 1955 Agenda – Briefing material, RG 19, Volume 3880, File 5515-04 (55/2) -2. p. 1. The memo runs for five pages.

<sup>170</sup> “Some Problems in Application Of An Equalization Formula” initialed RMB, August 30, 1955, p. 2.

method.”<sup>171</sup> Still, Oestreicher concluded, the Australian public’s acceptance of those Commonwealth Grants Commission transfers remained strong.

Oestreicher then looked at other models. He devoted *seven* pages to the Rowell-Sirois report, concentrating on its proposed National Adjustment Grants, which would link the size of the grants to specific spending. He concluded that this approach could lead to a difficult spiral: the growth in national income would spark demands for expanded government services; if Ottawa then guaranteed grants linked to the size of those provincial expenditures, “there could come about a growing dependence on transfers from the federal government.”<sup>172</sup> In other words, provinces would spend more to get more from Ottawa.

He also looked at the United States experience: the Americans offered conditional federal grants “to encourage certain types of expenditure but these amounted to a negligible proportion of the revenues raised by the states themselves.”<sup>173</sup> Still, this five-page section concluded that the U. S. approach “sometimes results in a distortion of [state] services in favour of those subsidized by the federal government.”<sup>174</sup>

Ottawa knew that it needed to achieve relative fiscal equality among the members of the federation. But, as the opening of the October Dominion-Provincial Conference neared, it could not decide whether the tax-rental deals were even

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<sup>171</sup> E. A. Oestreicher, “Fiscal Need Grants,” Department of Finance, September 2, 1955. LAC: Plenary Conferences: Conference of October 3, 1955 Agenda – Briefing material, RG 19, Volume 3880, File 5515-04 (55/2) -2. p. 11. The Australian portion of the brief runs from pps. 6-14.

<sup>172</sup> E. A. Oestreicher, “Canadian Proposals for Fiscal Need Grants,” p. 21. The section on Rowell-Sirois is seven-pages.

<sup>173</sup> E. A. Oestreicher, “Variable Grants in the United States,” p. 25.

<sup>174</sup> E. A. Oestreicher, “Variable Grants in the United States,” p. 27.

necessary – given the decision to provide some form of equalization to provinces that did not sign the deals. As Burns related in a remarkable summary, there were divisions within the government about the wisdom of pursuing tax rental deals for another five years:

No longer was there over-riding concern with central fiscal and economic controls which had been considered so vital from 1941 on. Whether this was a conscious conversion to a new spirit of federalism, a response to Quebec demands, a realistic assessment of changing provincial and public attitudes, a reaction to the political hazards of Keynesian management, or merely an unwillingness to continue to be pushed by the provinces to provide more revenue at federal political expense is not determinable. Undoubtedly all these factors influenced different people at different times. *The important point is that willingness to relinquish a measure of control existed, even though it was not unanimous....* The basic ground rules were changing and the ideas that were sacrosanct in the 1941-52 period were no longer inviolable in 1955-56.<sup>175</sup>

I did not find an opinion on the legality of equalization in any Privy Council documents. Actually, I did not expect to find any: this was a unilateral use of the federal spending power, which has never itself been properly tested in court. In 1956, when St. Laurent's government passed the Federal-Provincial Tax Sharing Arrangements Act, which received royal assent on July 31, he and his officials would have assumed that the federal law provided the necessary legal consent to distribute non-conditional grants to the provinces based upon tax revenues. And no government has challenged that assumption in subsequent decades.

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<sup>175</sup> R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*. p.122. My italics.

## Social Citizenship Also On The Table

Meanwhile, federal politicians also had to address other social needs, especially health insurance and assistance for those unemployed employables who were not eligible for Unemployment Insurance or whose benefits had expired. The Liberal Government had first made those promises in 1945. The pressure on the budgets of the poorer provinces had only become more intense since then as the demands for social services increased. The postwar boom could not raise all provincial boats – and inequality could be treacherous for political and social stability.

In late April 1955, Ottawa and the provinces met in a preliminary gathering to consider a national plan for health insurance – now that the four provinces of Newfoundland, Saskatchewan, Alberta and British Columbia already had some form of insurance.<sup>176</sup> They also discussed federal contributions toward relief for Unemployed Employables. The First Ministers concluded that it would be “impractical and invidious” to separate the hard-core unemployed, one by one, from everyone on relief. So they decided to consider a statistical approach to remove the hard-core unemployed of “say 1 or 1.5 or 2 percent of the total population” from the list of those eligible for federal help.<sup>177</sup>

In mid-June, as the federal equalization discussions proceeded, Ottawa and the provinces agreed on the outlines of a deal on Unemployment Assistance: the federal

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<sup>176</sup> Canadian Museum of History: Making Medicare: The History of Health Care in Canada:

<http://www.historymuseum.ca/cmc/exhibitions/hist/medicare/medic-4h10e.shtml>

<sup>177</sup> Federal-Provincial Conference, 1955, Preliminary Meeting, April 27, 1955 – Afternoon Session, Confidential. LAC. Plenary Conferences Conference of October 3, 1955 Agenda – Briefing Material, RG 19, Vol. 3880, File: 5515-04 (55/2)-2. p.

government would pay fifty per cent of the costs of provincial relief whenever the number of people on relief exceeded 0.45 per cent of a province's population. This excess group was deemed to represent the unemployed employables.<sup>178</sup> It is noteworthy that Quebec Premier Maurice Duplessis sent Social Welfare Minister Paul Sauvé to this Conference – and St. Laurent was delighted with his “conscientious thoughtfulness for the public welfare.”<sup>179</sup>

The Unemployment Assistance Act passed on July 11, 1956, but it was retroactive to July 1955 since six provinces had already signed agreements with Ottawa.<sup>180</sup> Ontario Premier Leslie Frost refused to sign the deal, contending furiously that Ottawa should pay fifty per cent of the entire relief tab.<sup>181</sup> The new Progressive Conservative government would remove the ceiling in December 1957 – and Ontario would join the agreement on January 1, 1958.<sup>182</sup>

In mid-1959, Quebec signed the deal – and its participation was made retroactive to 1958. “To participate in this plan, Quebec for the first time introduced an

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<sup>178</sup> John E. Osborne, Special Advisor on Policy, Department of National Health and Welfare, *The Evolution of the Canada Assistance Plan, Appendix to the Nielsen Task Force Report on the Canada Assistance Plan, 1985*, ed. federal bureaucrat Gilles Seguin, on Canada Social Research Links: <http://www.canadiansocialresearch.net/capjack.htm>

<sup>179</sup> Conrad Black, *Render Unto Caesar: The Life and Legacy of Maurice Duplessis*. (Toronto: Key Porter Books, 1998) p. 348.

<sup>180</sup> Unpublished thesis of Douglas Weatherbee Fowler, *The Unemployment Assistance Act (1956): Its Implications for Social Security and Public Welfare Administration in Canada*, School of Social Work, University of British Columbia. Pps. 30, 33.

<sup>181</sup> Unpublished thesis of Douglas Weatherbee Fowler, *The Unemployment Assistance Act (1956): Its Implications for Social Security and Public Welfare Administration in Canada*, School of Social Work, University of British Columbia. Pps. 36-37 and James Struthers, *The Limits of Affluence: Welfare in Ontario, 1920-1970* (Toronto: University of Toronto Press, Ontario Historical Studies Series for the Government of Ontario, 1994) p. 175.

<sup>182</sup> James Struthers, *The Limits of Affluence: Welfare in Ontario, 1920-1970*. p. 178.

assistance program for needy persons who were not in hospital,” federal bureaucrat John E. Osborne wrote. “All provinces had signed agreements by 1959.”<sup>183</sup> This federal contribution would eventually become the Canada Assistance Plan of 1966, which would contribute to the cost of *all* provincial welfare payments.

### **The Federal-Provincial Conference, October 1955**

The players at the First Ministers’ meeting in early October 1955 understood that they had put off the solution to provincial inequality – and therefore restricted social security – for far too long. Using the state-centred approach, they were the central players in the equalization discourse. Indeed, there were virtually no other lobbyists for such arcane transfers. But, despite the impatience of their citizenry and the threats to their political hegemony, the First Ministers had to settle the issue of equalization before they could expand the social safety net.

They were wrestling with questions that no federation could settle easily. Equalization was a necessary nation-building tool for a modern federation, especially for one with such divided notions of identity. But what was the satisfactory level for equalization payments that would not compromise the initiative or the autonomy of the provinces? If Ottawa offered too little money, the poorer provinces would still be unable to expand their social services. They might even proclaim that their citizens had the same moral right to expanded social

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<sup>183</sup> John E. Osborne, Special Advisor on Policy, Department of National Health and Welfare, *The Evolution of the Canada Assistance Plan, Appendix to the Nielsen Task Force Report on the Canada Assistance Plan, 1985.*

<http://www.canadiansocialresearch.net/capjack.htm>



services as the residents of the richer provinces – and the federal government was letting them down. If Ottawa offered too much money, federal politicians and officials feared that the cash would create provincial dependency with disastrous results for the province's economy and its citizenry. The richer provinces might rebel. It was a balancing act.

The proceedings opened on a sunny Monday, October 3, and ran through to a drizzly Thursday, October 6, in the House of Commons Chamber in Ottawa. The events on the first day were open; the next three days were closed. But, wherever the politicians appeared, they demonstrated the ongoing divide between provincial loyalists, who wanted to preserve their fiscal and cultural bailiwicks, and the advocates of social security, who wanted Ottawa to continue fiscal centralization to redistribute more funds. Those were very clear-cut differences. As politicians who operated within the limits of a federalist democracy with a capitalist economy, their attitudes toward sharing their citizens' tax dollars with strangers remained strikingly at variance.

St. Laurent greeted the First Ministers with conciliation – and the recognition that the public was impatient with their slow progress toward expanded social security. “Second only to national security are the demands of social security, *which the public expects of both Canada and the provinces in great measure,*” he declared.<sup>184</sup>

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<sup>184</sup> Prime Minister Louis St. Laurent, Proceedings Of The Federal-Provincial Conference 1955, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings. RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 8. My italics.

The Prime Minister quoted from his January letter to the Premiers, which explained that the tax rental agreements were not carved in stone. What he had enunciated was “the principle of paying an element of fiscal need subsidies to provinces with lesser tax potential than others.”<sup>185</sup>

Ottawa had no pre-determined formula to address fiscal inequality – but it was inclined to favour payments “determined by the amounts which need to be added to the yield of a set of standard taxes in that province to bring the revenue per capita up to some specified level defined in terms of what all provinces or certain provinces might obtain from those sources...We think that some plan of equalization payments ...can be fitted into a variety of different possible decisions.”<sup>186</sup> He went on to point out that one province (Quebec) objected to the tax rental deals on constitutional grounds. Others thought that there “should be a more explicit recognition of fiscal need.”<sup>187</sup>

The bottom line was clear: Ottawa wanted “*to ensure that there will not be any first-class or any second-class kind of Canadian citizen.*”<sup>188</sup> That, of course, remains the reasoning behind the principle of equalization today.

As the Premiers spoke, however, the fiscal divide among the provinces – and their differing concepts of citizenship and identity – quickly became apparent. Ontario

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<sup>185</sup> Prime Minister Louis St. Laurent, *Proceedings of the Federal-Provincial Conference*, October 3, 1955.(Ottawa: Edmond Cloutier, Queen’s Printer and Controller of the Stationery, 1955) p. 15.

<sup>186</sup> Prime Minister Louis St. Laurent, *Proceedings Of The Federal-Provincial Conference 1955*, Ottawa, October 3, 1955, pps. 16-17.

<sup>187</sup> Prime Minister Louis St. Laurent, *Proceedings Of The Federal-Provincial Conference 1955*, Ottawa, October 3, 1955, p. 16.

<sup>188</sup> Prime Minister Louis St. Laurent, *Proceedings Of The Federal-Provincial Conference 1955*, Ottawa, October 3, 1955, p. 20. My italics.

Premier Leslie Frost summed up his attitude toward the expansion of social security in the poorer provinces with lethal tact:

We do not question the desirability of the Federal government paying subsidies to provinces which need them....but the amount of these subsidies should be determined in the light of sound principles. While giving assistance to the receiving provinces they should not be such as to destroy enterprise and productivity in the province from which the revenue is taken.<sup>189</sup>

It was a warning that the *principle* of equalization might be settled – but the *mechanics* would always remain tricky. Conservative Frost frequently complained that Ontario had to spend *more* money on infrastructure than most provinces to make money from economic development. Frost did expand Ontario's public services such as its highways, schools and hospitals throughout the 1950s. He even proposed expanded health care services, including hospital insurance, at this conference. But he wanted Ottawa, the province and the patients to share the costs of the provincially administered system: there should be hospital user fees to discourage "unwarranted demands," prevent overcrowding, and encourage patients to explore lower-cost options.<sup>190</sup>

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<sup>189</sup> Ontario Premier Leslie Frost, Proceedings of the Dominion-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings. RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 21

<sup>190</sup> Appendix D, The Ontario Government's Submission, attached to the Proceedings of the Dominion-Provincial Conference, Ottawa, October 3, 1955, LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings. RG19, Vol. 3880, File: 5515-04 (55/2)-3. pps. 104–117..

Quebec Premier Maurice Duplessis did not share his colleagues' desire to collaborate with Ottawa. He was adamantly opposed to the tax-rental deals:<sup>191</sup> And he took a cynical view of Ottawa's need to centralize revenues. At an in-camera session of the Conference on October 4, 1955, he pointed out that the temporary tax-rental agreements appeared to have become permanent, with Ottawa's rationale for them changing from wartime needs to post-war reconstruction to defence. As the federal summary noted, he observed with asperity: "It was clear that if the provinces were to survive they must have breathing space."<sup>192</sup>

The federation seemed endlessly divergent. New Brunswick Premier Hugh John Flemming, who came from the other side of the provincial income divide, arrived with a recipe for sharing. He submitted a "Proposed Formula For Calculating An Adjustment Grant For Provinces That Lack Adequate Taxable Capacity To Finance A Reasonably Adequate Level Of Services."<sup>193</sup> Ottawa would bring the poorer provinces, including New Brunswick, up to eighty-five per cent of the per-capita personal income of Canada for the preceding three years. The difference between New Brunswick and Ontario, let alone Quebec, was stark.

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<sup>191</sup> Quebec Premier Maurice Duplessis, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 37.

<sup>192</sup> Federal-Provincial Conference 1955, morning in-camera session of October 4, 1955, Summary of Quebec Premier Maurice Duplessis, In-Camera Proceedings, Confidential, LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings RG19, Vol. 3880, File 5515-04 (55/2)-3. p. 2.

<sup>193</sup> Appendix E, Province of New Brunswick, attached to the Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955, LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings RG19, Vol. 3880, File: 5515-04 (55/2)-3. pps.117-128.

Saskatchewan Premier T. C. Douglas seconded New Brunswick's plea for equality. First Ministers had an obligation to decide "what adjustment grants or equalization payments should be paid to the less favoured provinces to permit an equitable minimum standard of government services across Canada."<sup>194</sup> He added: "I am convinced that [the majority of Canadians] want adequate levels of education, health and welfare services and economic development in all parts of Canada."<sup>195</sup>

Douglas dismissed St. Laurent's plea that Ottawa needed to earmark large amounts of money for defence:

The so-called 'cold war' is more than a contest of armaments; it is also a conflict of ideas and a struggle for the mastery of men's minds. In that kind of a war the greatest defence which this country or any other country can have is a happy and contented people who enjoy an increasing measure of protection against sickness, unemployment and want. To postpone the achievement of the objectives is to deprive this country of its greatest defence, namely, a people who have a stake in the democratic way of life.<sup>196</sup>

As a Keynesian, Douglas also wanted Ottawa to continue the tax-rental deals so that the federal government would have money to intervene in the economy during downturns: "I believe that the majority of Canadians subscribe to the view that the Federal government has a responsibility for maintaining high levels of employment

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<sup>194</sup> Saskatchewan Premier T. C. Douglas, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 81.

<sup>195</sup> Saskatchewan Premier T. C. Douglas, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 81.

<sup>196</sup> Saskatchewan Premier T. C. Douglas, Proceedings of the Federal-Provincial Conference 1955, Ottawa, October 3, 1955. LAC, RG19, Vol. 3880, File 5515-04 (55/2)-3. p. 91.

and income.”<sup>197</sup> Douglas’s did not understand that the federation could no longer survive such fiscal centralization. Ottawa would renew the tax-rental deals for one more term with those provinces that wanted to participate – but the end of such control was nigh.

There was one last grace note. After more than six years in Confederation, Premier Joseph Smallwood disavowed any declaration of dependence. Newfoundlanders would “infinitely prefer” to finance their essential public services from natural resource taxes “rather than by dependence on a hand-out from the benevolent Federal government in Ottawa.”<sup>198</sup>

After four days of difficult but polite wrangling, the participants emerged with a vague message. Ottawa had proposed “a system of equalization payments to be made unconditionally by the Federal government to those provincial governments whose tax potential in the fields of personal income taxes, corporation taxes and succession duties was below some defined level.”<sup>199</sup> From the start, unlike the Australian system, the Canadian payments would be calculated by examining the provinces’ capacity to raise revenues. As Queen’s University economist Thomas

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<sup>197</sup> Saskatchewan Premier T. C. Douglas, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 82.

<sup>198</sup> Premier Joseph R. Smallwood, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 98.

<sup>199</sup> Press Co3.mmuniqué, October 6, 1955, Appendix F, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 127-128.

Courchene points out, “The [Australian] CGC model equalizes for both ‘revenue means’ and ‘expenditure needs,’ whereas the Canadian model is limited to ensuring that all provinces have access to some ‘standard level’ of per capita revenues.”<sup>200</sup>

There were several reasons for this approach. In 1968, Ottawa equalization expert Douglas Clark, who was the best of his bureaucratic generation on this topic, wrote a 37-page memorandum on the difference between fiscal need and revenue equalization for his political masters.

There is no question whatever that the concept of fiscal need is superior to the concept of revenue equalization grants. However, while a great deal of progress has been made in our ability to compare the revenue-raising capacities of co-ordinate governments, very little progress has been made in our ability to make intergovernmental comparisons concerning the costs and needs for public expenditures.<sup>201</sup>

Forty years later, University of Alberta economist Bev Dahlby also maintained that Canada avoided Australia’s system because it was difficult to define need. As well, Ottawa wanted “to limit federal interference in areas of provincial jurisdiction.”<sup>202</sup> Perhaps most importantly, Dahlby asserted that Ottawa was concerned about “the potential distortions in provincial policies that might arise if the needs components

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<sup>200</sup> Thomas J. Courchene, “Subnational Budgetary and Stabilization Policies in Canada and Australia” in *Fiscal Institutions and Fiscal Performance*. (Cambridge, Massachusetts: National Bureau of Economic Research, Inc., 1999) pps. 312-313.

<sup>201</sup> Douglas H. Clark, “The Concept And Calculation Of Fiscal Need And Revenue Equalization Grants With Specific Reference To Canada, Ottawa, February 1968,” LAC, Federal-Provincial Relations Division: equalization fiscal needs, RG 19, Volume 5512, File 5628- 04 PT 1, p. 3.

<sup>202</sup> Douglas H. Clark, “The Concept And Calculation Of Fiscal Need And Revenue Equalization Grants With Specific Reference To Canada, Ottawa, February 1968.”

could be affected by provincial policies.”<sup>203</sup> In effect, the federal government feared that Canadian provinces could game the system, exaggerating their needs to pocket more funds.

Ottawa made a self-interested choice when it decided to base equalization on the revenues that the provinces could theoretically collect – *as opposed to the money that they were spending*. It certainly *appeared* to be simpler. That was then.

Saskatchewan Premier Douglas would soon ask that Ottawa include petroleum and natural gas revenues in the formula calculation.<sup>204</sup> The provincial lobbying over the make-up of the formula would start again. (It continues to the present day!)

### **The Formula**

Four weeks after the Conference adjourned, a senior federal official – who seems to have been R. M. Burns – drafted tough summaries of the provinces’ positions. He viewed Ontario with some derision as a poor-little-rich-regime: “The basic theme emphasized by Ontario throughout the meeting was the costs of development and of increasing population...While not opposing equalization as a principle or method, Ontario seemed to feel that the Federal adoption of the idea had gone too far.”<sup>205</sup> That was a protest that would resound across the decades – until Ontario needed equalization, too.

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<sup>203</sup> Bev Dahlby, “Fiscal Equalization: Country Experiences: The Canadian Federal-Provincial Fiscal Equalization System,” CESifo DICE, Report 1, 2008, p. 4.

<sup>204</sup> R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962.*, p. 155.

<sup>205</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at ‘In Camera’ Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 1. The initials “RMB” and the date “3 11 55” are at the bottom of this document.



When Burns turned to Quebec, he was smug. To Ottawa's satisfaction, Duplessis was restrained on the topic of the provincial right to tax, and "the impression was left that there would be no basic objection in principle to the equalization formula." But, Burns added, Duplessis "did not seem prepared to recognize or accept the fact that on a basis of personal income per capita or tax collection per capita, Quebec was below the national average of provinces."<sup>206</sup> Quebec would receive equalization.

Manitoba wanted to retain the tax-rental deals, but it wanted its per-capita payments to be higher. The province emphasized "the heavy demands for provincial and municipal expenditure in the fields of health, welfare, education and highways.... [along with] a belief that the long-term interests of the economy were best served by some form of central control of tax policy."<sup>207</sup> But Manitoba also proposed "*supplementary fiscal need payments* where these were necessary."<sup>208</sup> That is, Manitoba wanted the assurance of access to equalization when needed on top of the tax-rental compensatory grants.

Saskatchewan Premier Douglas agreed with Manitoba: he wanted to retain the tax-rental deals, basing the rental arrangements "on equalization to the highest

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<sup>206</sup> Summary Of Provincial Viewpoints On Fiscal Matters As Expressed at 'In Camera' Session, Federal-Provincial Conference, October 1955. LAC, Plenary Conferences Conference of October 3 1955 Summary Record Of Proceedings, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 2.

<sup>207</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at 'In Camera' Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p.4. My italics.

<sup>208</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at 'In Camera' Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955, p. 3.

provinces with growth provisions.”<sup>209</sup> He agreed with equalization payments, and with tax-abatements for the provinces that would not sign the rental deals. *But he would penalize any dissident provinces by withholding any supplementary or equalization payments.*

Douglas still did not “get” the depth of Quebec objections to the tax-deals – nor did he understand the danger to national unity that Quebec’s continued isolation could create. Instead, rather remarkably, he wanted Ottawa to create “an incentive” for those who signed the deals as a “tangible reward in compensation.”<sup>210</sup> As Burns wrote, Douglas rattled federal officials with his inference that only provinces that signed the tax-rental deals should get aid for fiscal need, “a bias the Government of Canada had been trying to avoid in the new approach.”<sup>211</sup>

In the end, Burns was upbeat. “Aside from Quebec which maintained its position on provincial fiscal autonomy, there was surprisingly little emphasis on the desirability of provinces being responsible for raising their own revenues.... Equalization as an idea on principle seemed to get fairly general acceptance whether as a basis for payment under [tax-rental] agreements or otherwise.”<sup>212</sup> There were caveats. Ontario and British Columbia felt the idea “could be carried too far”; New

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<sup>209</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at ‘In Camera’ Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955, p. 5.

<sup>210</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at ‘In Camera’ Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955, p. 5.

<sup>211</sup> R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*. (Toronto: The Canadian Tax Foundation, 1980) p. 148.

<sup>212</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at ‘In Camera’ Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955. LAC, RG19, Vol. 3880, File: 5515-04 (55/2)-3. p. 6.

Brunswick and Manitoba wanted to extend the compensation to cover other tax fields.<sup>213</sup> A cynic might say that it was business as usual within the fractious federation. A deal seemed possible.

But the details of any tax-rental agreements or an equalization formula were far from settled. Burns raised twelve major theoretical issues – and suggested that Ottawa start bilateral behind-the-scenes talks with individual provinces to thrash out the host of problems.

The federal cabinet mulled its options. Federal ministers thought that Quebec “might accept a tax equalization payment.”<sup>214</sup> That is, it might accept an unconditional transfer. But, they concluded, any attempt to combine equalization with a special grant based on fiscal need for Quebec, which the tax-rental deals provided to other provinces, would simply “aggravate” the tensions – if only because “it would be said that by offering this added grant, the federal authorities recognized they had taxed more than they should in the three main fields.”<sup>215</sup>

A week later, the cabinet wrestled with the mechanics of an equalization formula: How could they explain the needs of strangers – let alone their moral rights – to their fellow Canadians? What would happen if they based their calculations on the per-capita average collections in the five wealthier provinces “to keep the

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<sup>213</sup> Summary of Provincial Viewpoints on Fiscal Matters as Expressed at ‘In Camera’ Session, Proceedings of the Federal-Provincial Conference, Ottawa, October 3, 1955., p. 6.

<sup>214</sup> Summary of Cabinet Proceedings, December 7, 1955, Top Secret, LAC, December RG2, Vol. 2659, File: 29 September to 21 December 1955, p. 24.

<sup>215</sup> Summary of Cabinet Proceedings, December 7, 1955, Top Secret, LAC, December RG2, Vol. 2659, File: 29 September to 21 December 1955, p. 25.

equalization grants as low as possible?”<sup>216</sup> The use of the two wealthier provinces of Ontario and British Columbia as a base would mean higher equalization payments: how would the richer provinces and the West accept a formula that delivered \$40-million to Quebec “if that was justified?”<sup>217</sup> The cabinet decided to take a chance on the simpler formula, using only two provinces as the basis for their calculations, concluding that no provincial government would offer much objection to the higher level of generosity:

Public opinion had to be considered and the first impression was the one that mattered most. On balance it would be preferable to make an offer now which would be close to the final terms of any agreement which might be reached... The advantages of trying to keep this [equalization] grant [of \$40-million to Quebec] a little below that figure by averaging to the top half [of the provinces] were far outweighed *by the disadvantages of adopting a formula which would be inexplicable*.<sup>218</sup>

Ottawa stuck to that decision. In early January 1956, St. Laurent consulted with his colleagues about a draft letter to the Premiers, outlining an equalization formula that would be based upon the average per-capita take from those three taxes in the two wealthiest provinces. His “Confidential” letter outlined the formal proposal for equalization that he had presented at the October 1955 Conference: Ottawa would make “unconditional tax equalization payments” to bring the per-capita yield of key

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<sup>216</sup> Summary of Cabinet Proceedings, December 14, 1955, Top Secret, LAC, December RG2, Vol. 2659, File: 29 September to 21 December 1955, p. 14.

<sup>217</sup> Summary of Cabinet Proceedings, December 14, 1955.

<sup>218</sup> Summary of Cabinet Proceedings, December 14, 1955, Top Secret, LAC, December RG2, Vol. 2659, File: 29 September to 21 December 1955, p. 14, 15. My italics.

taxes “up to the level of the average per capita yield of these taxes” in the two wealthiest provinces, which were then Ontario and British Columbia.<sup>219</sup>

If a province opted to continue with the tax-rental scheme, it would receive increased grants, which would “guarantee a measure of stability in this sector.”<sup>220</sup> The Cabinet would later spell out that “a tax rental agreement was not a required feature” of equalization payments.<sup>221</sup> That is, provinces that did not sign the final round of tax-rental deals would also receive equalization. On February 15, after a lengthy cabinet discussion, St. Laurent and his colleagues agreed to send a revised version of that letter to the Premiers, making it clear that Ottawa “was not in a position to make any further commitments or to accept another concept of fiscal need.”<sup>222</sup>

Almost forgotten now, this undertaking was then regarded as pivotal to St. Laurent’s career. As Pickersgill noted in his memoirs: “St. Laurent regarded the settlement of the tax-sharing problem between the federal and provincial authorities as more essential to the continued unity and growth of Canada than the construction of the [Trans Canada] pipeline...[Equalization was] a measure for which he [St. Laurent] was uniquely responsible.”<sup>223</sup> The federal government had finally found a non-intrusive way to solve the fiscal inequality among the provinces

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<sup>219</sup> “Letter To Provincial Premiers” from Prime Minister Louis St. Laurent, January 6, 1956. Confidential. LAC, MG 28, Series I103, Volume 171, File: D-60 1956-1957 Drafts - (Privy Council Office) – Official Correspondence. p. 2.

<sup>220</sup> “Letter To Provincial Premiers” from Prime Minister Louis St. Laurent, January 6, 1956, p. 4.

<sup>221</sup> Summary of Cabinet Proceedings, May 30, 1956,” LAC, RG 2, Volume 5775, File: 14 May 1956 to 7 August 1956, p. 3.

<sup>222</sup> Summary of Cabinet Proceedings, February 15, 1956, Top Secret, LAC, RG 2, Vol. 5775, File Cabinet Conclusions January. 03 – March 1, 1956, p. 3.

<sup>223</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir*. pps. 310, 312.

– and thus provide the ability to expand social security – that had impeded the expansion of social programs for years. Politicians could now rely on a supposedly neutral formula to determine their needs.

A follow-up First Ministers' Conference on March 9, 1956 sealed the deal – despite the objections of key provinces. Finance Minister Harris pointedly observed that there “seems to have been a general acceptance of the principle of equalization.”<sup>224</sup> But, he added dourly, the poorer provinces wanted higher equalization or fiscal need grants while the richer provinces wanted more room to raise their own taxes to fulfill their responsibilities. “The federal government is squeezed between these conflicting views,” he lamented.<sup>225</sup> In response, Ottawa had devised a compromise that would meet “the needs of those provinces which have been having difficulty in providing standards of service which modern societies consider to be essential” – while preserving “the national interests of our peoples.”<sup>226</sup> There would be no extra federal cash.

The Premiers had not changed their stances. Perhaps the most outspoken against the equalization formula was Ontario Premier Frost, who remained indignant about the size of the transfers to the poorer provinces:

[I]t costs money to earn money...We simply cannot afford many of the services the other provinces now have. Because of our great credit requirements, for we are borrowing hundreds of millions of

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<sup>224</sup> Formal statement of Finance Minister Walter Harris to the Federal-Provincial Conference, March 9, 1956. LAC, Plenary Conferences Conference of March 9, 1956. RG19, Vol. 3880, File: 5515-04 (56/1)-4, p. 8.

<sup>225</sup> Formal statement of Finance Minister Walter Harris to the Federal-Provincial Conference, March 9, 1956. LAC, Plenary Conferences Conference of March 9, 1956. RG19, Vol. 3880, File: 5515-04 (56/1)-4, p. 8.

<sup>226</sup> Formal statement of Finance Minister Walter Harris to the Federal-Provincial Conference, March 9, 1956, p. 10.

dollars for public investment, a balanced budget on ordinary account is a necessity. We are only achieving such a balanced budget now at the expense of very essential services.<sup>227</sup>

After the in-camera sessions, he delivered a terrible public verdict: “They were wrong in 1945, they were wrong in 1952, and they are wrong today. And they will find out how wrong they are in about five years when they come face to face with the realization that today’s lack of foresight will bring this country to the brink of economic disaster.”<sup>228</sup> (Frost was citing the dates that tax-rental agreements were signed.) St. Laurent could never convince Frost to change his mind about the limits of generosity – because the Premier wanted his taxpayers’ funds for his government. But then St. Laurent did not need Frost’s consent to send cheques from the federal government to the poorer provinces. Still, the Prime Minister would rue his failure to pacify Frost when fiscal issues figured in the 1957 election.

Indeed, Frost would turn his quest for a higher percentage of the personal income taxes into an issue in Ontario during the June 1957 federal election. As historian P. E. Bryden points out, Frost shrewdly coupled his demands for Ontario with the stipulation that the “chronically poor” Atlantic provinces should also get an extra adjustment grant, “which softened the overt tax-grab component” of his plan.<sup>229</sup> “So effective was Frost at driving home his twin messages – more tax room

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<sup>227</sup> Formal Statement of Ontario Premier Leslie Frost to the Federal-Provincial Conference, March 9, 1956. LAC, Plenary Conferences Conference of March 9, 1956, RG19, Vol. 3880, File: 5515-04 (56/1)-4, pps. 3 and 7.

<sup>228</sup> “Ottawa Ends Tax Talks, \$640,000,000 Limit, Harris Tells Provinces” in *The Globe and Mail*, Saturday, March 10, 1956. p. 1.

<sup>229</sup> P. E. Bryden, “The Obligations of Federalism” in *Framing Canadian Federalism*, eds. Dimitry Anastakis and P. E. Bryden, (Toronto: University of Toronto Press, 2009) pps. 86, 87.

for the wealthier provinces, equalization grants for the poorer provinces – that fiscal concerns became identified as a key battlefield in the federal election,” notes Bryden.<sup>230</sup> When Frost introduced Conservative leader John Diefenbaker at a Toronto rally, the Premier declared: “It is not a matter of the Federal Government giving Ontario or the Provinces anything. That is the patronizing attitude in Ottawa. All that we ask is a reasonable part of our own.”<sup>231</sup> It would be electoral dynamite – and St. Laurent would lose the election partly for that reason.

At the Conference, however, New Brunswick Premier Hugh John Flemming countered Frost’s assertions with a firm endorsement of the principle of equalization:

*Our people are citizens of Canada and they expect and deserve to be considered and treated as such. They expect Canadian standards of health services; they expect Canadian standards of educational services; they expect roads built to Canadian standards; and they expect a way of life which is not too dissimilar from the way of life enjoyed by Canadians in other provinces.*<sup>232</sup>

That was an avowal of equitable social citizenship within the nation-state. Saskatchewan Premier Douglas did not provide a formal public statement, perhaps understanding that equalization would go to the “Have Not” provinces such as Quebec that did not sign the tax rental deals – no matter what he urged.

The Conference concluded after five hours and fifteen minutes – without an agreement. It was business as usual within the federation. But the federal Liberals decided to push through the enabling legislation anyway: they did not need

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<sup>230</sup> P. E. Bryden, “The Obligations of Federalism”. p. 87.

<sup>231</sup> P. E. Bryden, “The Obligations of Federalism”. p. 87.

<sup>232</sup> Formal statement of New Brunswick Premier Hugh John Flemming to the Federal-Provincial Conference, March 9, 1956. LAC, Plenary Conferences Conference of March 9, 1956RG19, Vol. 3880, File: 5515-04 (56/1)-4, p. 17.



provincial agreement to send non-conditional grants. Provinces could opt for tax-rental deals through one-on-one deals. Non-conditional equalization required no consensus. And there was none.

### **The Enabling Legislation**

Although St. Laurent had been intimately involved in the design of equalization, he left its Parliamentary passage to Finance Minister Harris – even though he had been impatient with his minister’s failure to immediately grasp the value of the proposal.<sup>233</sup> The bill authorizing the new tax-rental and equalization arrangements was tabled in Parliament in July 1956. Harris estimated that equalization would cost \$155-million in the 1957-1958 fiscal year – and the entire deal would cost \$653-million. That was more than twenty per cent higher than the amount that would have been sent to *all* provinces if the tax rental deals had simply been renewed. The legislation passed without amendment, “and became the Federal-Provincial Tax Sharing Arrangements Act, receiving royal assent on July 31, 1956.”<sup>234</sup>

Equalization would start on April 1, 1957. As tax expert J. Harvey Perry later remarked: “Equalization was to be an answer to the argument of the non-agreeing provinces, principally Quebec, that the alternative between autonomous taxation and a deal with the federal government was biased financially in favour of the

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<sup>233</sup> J. W. Pickersgill, *My Years with Louis St. Laurent: A Political Memoir*, p. 310.

<sup>234</sup> R. M. Burns, *The Acceptable Mean: The Tax Rental Agreements, 1941-1962*, p. 154.

latter.”<sup>235</sup> Provinces that did not play ball with Ottawa were no longer penalized for the assertion of their autonomy.

The social activists paid virtually no attention to this breakthrough in resolving provincial inequality. Few realized what equalization had accomplished. Or, if they did, they wanted more federal money for the provinces anyway – and they would link that demand with specific social spending.

It was almost as if the advocates were unaware of the miracle of equalization – and the festering problems that it had addressed. That was an irony that two generations of beleaguered politicians and bureaucrats would have appreciated.

## **Conclusion**

Equalization did not magically unite the partners in the Canadian federation. There would be many more battles ahead among Ottawa and the provinces over provincial autonomy, fiscal sharing and the expansion of social citizenship. But those first 1957-1958 equalization cheques, which totaled \$139-million, including a \$46.4-million peace offering to Quebec, would be a godsend for the poorer provinces.

The new transfer program commenced as the tax-rental agreements for 1957-1962 reached their last renewal. All provinces signed those deals, except for Ontario and Quebec; Ontario rented only its personal income tax but it was unsatisfied with its grant; Quebec stayed out of this last post-war pact – finally without penalty. There would be no more rental deals.

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<sup>235</sup> J. Harvey Perry, *A Fiscal History of Canada – The Postwar Years* (Toronto: The Canadian Tax Foundation, 1989) p. 435.

The days of fiscal centralization were creaking to an end. Now nine provinces, including British Columbia, were cashing non-conditional cheques based upon a neutral formula. (Obviously, since British Columbia was the poorer of the two wealthiest provinces, it received a relative pittance of \$5.5-million, too.) Poorer provinces could count on regular transfers that raised their revenues to the per-capita average that Ontario and British Columbia collected from personal and corporate income taxes and succession duties. It worked.

The vociferous lobby for changes in provincial fiscal shares has continued across the decades, up to the present day. But, as this thesis has argued, the greatest boost for Canadian citizenship and national unity remains the equalization program. It is a neutral fiscal mechanism, which must be carefully adjusted to avoid the pitfalls of dependency and the resentments about excess generosity. In itself, it is neither good nor bad. Its formula is variable. Its operations remain obscure. But, without it, the federation could not have endured.

Perhaps the best summary of the miracle of equalization came from Prime Minister Lester Pearson who recognized that sharing had brought freedom to the federation, allowing provincial governments to devise their own versions of specific social programs. On March 31, 1964, he told the First Ministers that equalization was the key to a better world. He spoke in government jargon – but he captured the possibilities on the eve of the nation's centenary:

We believe that in the past shared-cost programs have been essential to remove the obstacles created by the uneven fiscal capacity of the provinces and the competing demands on provincial treasuries. These programs have made an essential contribution, I believe, to the economic and social progress of Canada, and to the reduction of regional unevenness in that

progress. *However, changing conditions – including, above all, the development of our system of equalization of revenues in the shared tax fields – now offer us more alternatives than we had in the past.* It is appropriate, therefore, to consider whether some of the shared programs should now be changed, with federal withdrawal and a full assumption of provincial responsibility.<sup>236</sup>

The federation had not solved inequality. It would always walk a fine line between doing too little to tackle the fundamental social and economic problems in the poorer provinces – and fostering dependency among governments that did not want to raise taxes in case they lowered their equalization benefits. But it had found a remedy that had – however briefly – satisfied (almost) every government. And, almost unnoticed at the time, Pearson had attributed the evolution of social security to this unlovely program that only an accountant could love.

The federation partners now had their fiscal peace treaty.

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<sup>236</sup> Opening Statement of Prime Minister Lester B. Pearson at the Federal-Provincial Conference in Quebec City, March 31-April 2, 1964. Appendix B, Conditional Grants and Shares Cost Programs, in Notes on Federal-Provincial Plenary Conference at Quebec City, March 31- April 2, 1964, LAC, RG19, Vol. 3884, File 5515-04 (64/1) -3. p. 53. My italics.

## Conclusion

Fiscal inequality can destroy federations. The richer provinces have the money to provide better services while imposing lower taxes. The poorer provinces struggle to fund such basic services as education and health, and to build infrastructure. They keep raising taxes – but they can seemingly never catch up. The worm of jealousy eats into their politicians and their voters. They blame their fellow citizens in the richer states, convinced that the system is rigged against them. They claim that the central government has designed everything from tariffs to taxes to thwart their economic development and social wellbeing. They see a wealthier province – just across an invisible border – doing so much better that the contrast can be visible, even in road quality, whenever they travel across boundary lines. They might need to move to a richer province to improve their social care. It is a recipe for a national break-up.

Equalization is sharing with a wry twist. If federations do not share, if they cannot ease the fiscal gaps among their provinces – that is, the difference in the average per-capita amount that each province can raise from key taxes – they may not survive. In theory, federal sharing is a moral act of generosity, where money is given freely to a fellow human being or to a provincial government as a *right* of social citizenship. Those ideals are still cited as a legitimate defence for Canada's huge federal transfer program of equalization, which ensures that all provinces can provide relatively equal levels of services for relatively equal levels of taxation. And they remain the foundational ideal.

But the reality is that equalization is also a hardheaded state-centred bargain that ties together Ottawa and the richer and the poorer provinces in a skein of calculated trade-offs. The formula is complex, but *theoretically* beyond any federal interference for political reasons that would tamper with payments to poorer provincial governments. Provincial treasurers can figure out their annual entitlements – and they can usually budget for several years ahead because the amounts remain relatively stable and stabilized. The federal government – with the sometimes-grudging consent of the richer provinces – hands out the cash to the poorer provinces that it collects from taxpayers in all provinces. But it cannot tell those provinces how to spend the money. There are no application forms. It is a practical system that is designed to keep the peace. And, despite mutual resentments among the poorer and the richer provinces, it has largely worked.

Indeed, Prime Minister Louis St. Laurent and his government pounced on equalization in 1956 as a way to calm the tensions within the federation, especially with Quebec. Ottawa could – and eventually would – tinker with the equalization formula, usually to cover the revenues from more taxes. But it was sharing without the messy process of ad hoc handouts that had prevailed in the past. There were few complaints, partly because few Canadians understood the system – or grasped its pivotal importance in the funding of social services in poorer provinces. There were few compliments, because the intricacies of equalization were even a mystery to many ministers in federal and provincial governments. And that was just the way that the insiders liked it.

But equalization has saved the federation. It is not a beloved social program like Medicare or an obvious economic lifesaver such as federal transfers for post-secondary education. Instead, it pumps funds into the behind-the-scenes operations of the provincial and territorial governments, preserving social peace and national unity, bringing equity and efficiency. Its arrival was a pivotal moment in nation-building that allowed the poorer provinces to participate in the expansion of social programs along with the richer provinces – because they finally had the funds. The practical benefit was that each province pocketed non-conditional transfers, which came without application forms, boosting their bottom lines. The principle, which was embedded in the Constitution in 1982, has become a pivotal fiscal tie that binds every province to Ottawa and to each other.

This thesis has traced the social and political history of equalization, chronicling how the partner governments in the Canadian federation haggled, fretted and feuded over inequality for ninety years before they endorsed or at least tolerated the federal fiscal mechanism of equalization. Equalization was the product of a state-centred approach to inequality – *of necessity* – because only the central government could remedy the fiscal inequalities among provincial governments within the Canadian federation. Indeed, initially, many provincial politicians and most social advocates did not grasp the need to address fiscal inequality among provincial governments before social programs could expand.

As a consequence, I have used the state-centred approach of Canadian political scientist Donald Smiley and American historian Theda Skocpol, concentrating on

key politicians and administrators “as the primary focus of action.” Those politicians and bureaucrats were “actors in their own right, enabled and constrained by the political organizations” within which they operated.<sup>1</sup> As I have shown, Ottawa bureaucrats and politicians – along with provincial premiers – were key centres of power – and they were pivotal in the development of equalization.

But, as scholars Richard Simeon and Robin Boadway have argued, states do not operate in a vacuum. During the post-war years, politicians and bureaucrats became increasingly sensitive to the lobbying efforts of activist groups, especially those within the Rest of Canada, for better social security. As I have shown, women’s organizations and labour unions usually concentrated on Ottawa when they pleaded for the expansion of social care. But few suggested remedies for the inability of the poorer provinces to fund those programs. There was an eerie absence of concern about provincial fiscal inequalities: civil society groups wanted progress but they did not see the elephant in the federal-provincial room.

Their pressure eventually prodded Ottawa into easing fiscal inequalities among the federation members. That, in turn, allowed all provinces to expand social security. But most activists did not understand the connection.

Sharing among the federal and provincial governments was not a novelty. From Confederation, Ottawa had provided subsidies to all provinces, which were theoretically equal but which could be manipulated to put extra cash in the pockets

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<sup>1</sup> Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States*. (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1992) 41.



of the poorer ones. It was an unsatisfactory, often slapdash and inherently unfair solution for inequality – if only because the extra payments were minimal and the decisions were ad hoc. Federal politicians could manipulate those subsidies at will – as they did when they offered more money to the poorer Maritime Provinces as an inducement to join Confederation.

Meanwhile, Ottawa effectively implemented a “systematic consolidation and centralization of [fiscal] power.”<sup>2</sup> In response, the poorer provinces blamed the very act of federation for their plight – and demanded special subsidies to remedy what they saw as their inherently unequal fiscal status and their fiscal needs. Subsidies, in effect, became economic *and* political acts that tacitly addressed fiscal needs to a limited extent.

But there were limits to Ottawa’s fiscal power. The richer provinces resented Ottawa’s largesse with their taxpayers’ funds. They invoked the fiction that all provinces were purportedly equal – and Ottawa should treat them equally – whenever federal subsidies to their poorer brethren appeared to go too far. Their ire was a formidable weapon that curbed lavish transfers – and restrained overt federal bids to buy popularity with flashy announcements in the poorer provinces.

Ottawa could usually maintain a temporary peace. But the Confederation bargain had not foreseen the diminution in the value of the fixed subsidies across time, the loss of traditional social supports from churches and extended family for people in difficult circumstances, and the growth of provincial responsibilities. By the late 1920s and into the 1930s, as the role of governments in Canadian society escalated

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<sup>2</sup> E. A. Heamon, *Tax, Order, and Good Government: A New Political History of Canada, 1867-1917* (Montreal & Kingston: McGill-Queen’s University Press, 2017) p. 460.

in response to social and economic needs, Ottawa resorted to special federal subsidies, targeted loans and specific grants to placate the poorer provinces, preserving their fiscal bottom line, allowing them to provide minimal services such as relief for their struggling citizenry.

Amid the iron grip of the Depression, however, it was difficult to maintain this federal solution for the federation's poorer members. Fiscal inequality among the provinces was a state-centred problem, largely aloof from the concerns of many Canadian voters. But, as basic social care crumbled, especially in the poorer Prairie Provinces and the Maritimes, politicians and bureaucrats realized that the division of revenues and responsibilities within the federation was not working. The costs of relief were so huge, especially within the poorer provinces, that Ottawa could barely hold together the federation.

There was little thought of adopting a neutral program with a transparent formula to transfer cash to the poorer provinces – and there was not enough federal money to do much more anyway. But Ottawa was aware in the mid-1930s that an Australian model for this approach existed. Indeed, as I have shown, Ottawa kept tabs on its sister federation – and vice versa – as each central government examined how the other handled fiscal inequalities among the member states. Instead, Ottawa appointed a Royal Commission on Dominion-Provincial Relations, which reported in wartime in 1940. It urged Ottawa to centralize key revenues – and to introduce National Adjustment Grants that would compensate provinces for spending in key social and economic areas.

When three provinces rejected that proposal in January 1941, Ottawa unilaterally centralized the key revenues of income taxes and succession duties – and sent compensatory grants to the provinces, which were minimally equalized. In peacetime, the federal government fought to keep control of those revenues: it had finally embraced the Keynesian notion that it should spend during economic downturns to moderate the effects and to stimulate consumer demand. But when the initial tax-collection agreement expired in the post-war era, Quebec and Ontario refused to continue this centralization of revenues – and Quebec fiercely defended its decision on constitutional grounds.

Ottawa could not retain its hold. By the mid-1950s, Quebec was furiously resisting Ottawa's fiscal centralization – and its resulting loss of federal grants. Meanwhile, social activists were putting pressure on provincial governments and Ottawa to expand social programs. Ottawa could no longer ignore the danger to national unity that the five-year tax rental deals posed. Nor could Ottawa and the provinces ignore the call for expanded social care. But the fiscal inequalities among the provinces were huge: the poorer ones could not provide better social security.

Equalization was the belated solution to this dilemma. In 1956, Ottawa adopted its program of unconditional federal transfers to the poorer provinces, based upon their ability to raise key revenues. Thereafter, Ottawa and the provinces were able to introduce programs for social assistance, hospital care, Medicare and post-secondary education funding.

I have argued that equalization took so long because the federal government and the provinces were embroiled in a struggle over the division of revenues and

responsibilities within the federation. Ottawa wanted a strong central government with control over the lion's share of the tax revenues. It did not accept or even understand the strength of provincial rights, particularly in Quebec, which wanted to protect its cultural and linguistic responsibilities through control of its own tax revenues. Nor did Ottawa understand that wealthier provinces such as Ontario wanted to preserve their taxpayers' revenues for *their* purposes – and they objected to the size of Ottawa's subsidies to their poorer kin. Ottawa did not even fully grasp the desire of most provinces to design and administer their own social programs.

That battle reached its nadir in the mid-1950s. The federal government had a choice: It could continue on its stubborn path to centralize revenues and possibly destroy the federation – or it could create unconditional grants that would allow the provinces to fund and run their own social programs. Commonsense prevailed. Prime Minister Louis St. Laurent pulled back from the brink – and Quebec Premier Maurice Duplessis accepted the eventual compromise of unconditional equalization.

In turn, richer provinces such as Ontario and poorer provinces such as New Brunswick grudgingly accepted the bargain – although the federal Liberals would pay a price for that consent. During the June 1957 election campaign, Ontario Premier Leslie Frost demanded better tax abatements for his province and extra adjustment grants for the Maritimes. Astonished by Frost's calculated advocacy, the poorer Maritime Provinces echoed the Ontario Premier's call for extra grants. As a result, "fiscal concerns became a key battlefield in the federal election called for June

1957.”<sup>3</sup> The unlikely issue of provincial fiscal inequality had its [brief] moment of public fame – and Prime Minister Louis St. Laurent lost the election to Progressive Conservative John Diefenbaker.

Today, although Ottawa and the provinces still compete for control over revenues and responsibilities, although the two levels of government still squabble, often dangerously, they now have a fiscal tie that binds.

Federal bureaucrats and politicians – and some remarkable provincial politicians such as Manitoba Premier John Bracken and Nova Scotia Premier Angus L. Macdonald – had been well aware of possible state-centred solutions for inequality for decades. By the last half of the 1920s, Ottawa understood that federations in the 20<sup>th</sup> century had to find a formal remedy for fiscal inequality among their members or face irreparable strains. In particular, Canadian politicians and bureaucrats established close ties with the Australian federation: the two federations chronicled each other’s support for member states that were facing bankruptcy or threatening secession. This thesis has traced that deepening bond throughout the mid-to-late 1920s and into the 1930s, as both Canada and Australia set up royal commissions to probe the inequalities that had driven provincial and state governments to profound dissatisfaction and near-ruin in a changing economic and social world.

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<sup>3</sup> P. E. Bryden, “The Obligations of Federalism” in *Framing Canadian Federalism*, eds. Dimitry Anastakis and P. E. Bryden, (Toronto: University of Toronto Press, 2009) p. 87.

The ties were remarkable – and no one in Canada or Australia has explicitly outlined them. I have chronicled how each royal commission in each nation began to cite reports from its sister Dominion in its scrutiny of inequality. Those Royal Commission hearings were informative and mutually beneficial exercises. All of them tackled basic questions. Were the poorer states put in an inferior position *from the start* through the very structure and provisions of the federation? Should central governments treat their members as fiscal equals in the distribution of subsidies, or should they work to ease fiscal inequality? Did central governments have a moral and/or practical obligation to handle ruinous inequalities? If so, what should they do?

The parallels with Australia were remarkable. In late 1924, the Commonwealth Government established a Royal Commission on the fiscal predicament of Western Australia. The ensuing report examined the operations of other federations such as Brazil and South Africa, cited the Canadian approach to targeted grants and Parliamentary operations, and clumsily dodged demands that it proclaim the very act of federation as inherently unfair. It did, however, call for special grants to remedy fiscal inequalities *anyway*. In 1926, Prime Minister Mackenzie King established the Duncan Royal Commission on the Maritimes in response to bitter complaints about high freight rates and threats of secession. That report, which was tabled in December 1926, also refused to blame the mere act of federation for the region's plight – but it called for a generous lump-sum increase in subsidies.

In turn, in mid-1928, the Commonwealth Government requested copies of the Duncan Royal Commission report, and promptly established its own Royal

Commission into the plight of South Australia. That report, which appeared during the autumn of 1929, cited Canadian and American precedents: In particular, it quoted the Duncan report, which had refused to blame the inherent disabilities of federation for the Maritimes' plight but which called for compensation for inequality *anyway* – because the region merited sympathetic treatment.

Four months later, the Australian Parliamentary Joint Committee of Public Accounts probed the difficult situation in the impoverished state of Tasmania. That committee concluded that there would always be financial inequalities within federations, citing the examples of the United States, South Africa, Germany and Canada. It, too, quoted from the Duncan Commission, urging the central government to be generous and fair to its poorer member states. And it called for the creation of a permanent body to ensure that the current ad hoc payments to the states could be put on a uniform basis.

The Depression-era difficulties in both countries were now shaping the debate about inequalities among the member-states. In April 1933, the residents in Western Australia voted by a majority of two-to-one to secede. In response, the Commonwealth Government of Australia created the Commonwealth Grants Commission to transfer funds to the poorer states – that is, Tasmania, South Australia and Western Australia.

Those grants were based upon their so-called fiscal need – which the Commission calculated through investigations into their spending and, in a minor way, their revenues. A remarkable Tasmanian-born mathematician, L. F. Giblin, who was one of the first three commissioners, devised a somewhat quirky formula to

determine the grants. All states accepted the commission's decisions because it operated at arm's length from the central government. As well, the formula appeared to be politically neutral – and GIBLIN was idolized.

Canadians were well aware of Australia's activities. Politicians and bureaucrats kept track of the Australia Commonwealth Government's policies across many ministries such as immigration and the approach to unemployment – and the interest was mutual. The Canadians knew that, under the so-called Premiers' Plan of 1931, Australia had reduced real wages, slashed government expenditures, cut interest charges, expanded central bank credit to finance deficits and loans for necessary works, and depreciated its currency.

The Bank of Canada, which was established in 1935, carefully studied the operations of the Commonwealth Bank of Australia, which had held central bank powers since the mid-1920s. They also examined the workings of the Australian Loan Council: under an agreement in 1929, the Commonwealth Government had taken over all state debts, and then put responsibility for all future federal or state borrowings under the Council. Bank of Canada officials also studied the annual reports of the Commonwealth Grants Commission – thoroughly.

In turn, the Australians followed multiple federal and provincial debates and activities – but they were particularly interested in the increasingly desperate efforts of the Western provinces during the 1930s to obtain federal financing to back their bond redemptions. It was clear that the Canadian federal system was not working **and ongoing debt service** well: the poorer provinces in the West and the Maritimes remained dissatisfied with the federal assistance that they deemed to be



*their* moral right; the richer provinces were convinced that their poorer kin were becoming dependent on federal hand-outs of *their* taxpayers' dollars at a time when every provincial government was hurting.

When Prime Minister Mackenzie King finally created the Royal Commission on Dominion-Provincial Relations in February 1937, commission officials asked for lengthy reports on how Australia, along with other federations such as Argentina, the United States, tackled fiscal inequalities among their member-states. They interviewed multiple witnesses on remedies for inequality, including the redoubtable Giblin, who explained how his system worked – and how it might or might *not* work in Canada. Other witnesses, including Nova Scotia Premier Angus L. Macdonald and Manitoba Premier John Bracken along with private groups such as the Chamber of Commerce, cited the Australian Grants Commission as an example that Canada should emulate.

Indeed, the Royal Commission's concentration was always on Australia, if only because the two federations were relatively similar in terms of culture, heritage, economics and the division of powers – although the central government had more revenues. The resulting report called for centralized revenues and National Adjustment Grants for the provinces similar to the Australian approach for the support of education and welfare at an average national standard. Such revisions in revenues and responsibilities would have entailed radical change – and Prime Minister Mackenzie King shunned the approach.

But the recommendation did provide a theoretical foundation for Canadian equalization – although its formula would be radically overhauled in the different world of federal-provincial relations that would prevail only seventeen years later. In effect, the report made a breakthrough with its embrace of the idea that the poorer provinces should be able to provide social services that were roughly comparable to those in richer provinces at roughly comparable levels of taxation.

This thesis has shown how the federal inclination toward revenue centralization became increasingly untenable during the post-war years into the mid-1950s. The richer provinces – Ontario eventually signed a second tax-rental deal in 1952 – demanded increased compensation in return for their concessions. Quebec simply refused to cooperate, arguing that Ottawa was setting precedents that could affect its right to collect key revenues.

Ottawa, in turn, played its relations with the provinces with a tin ear. Its series of five-year tax-rental deals centralized income tax revenues and succession duties in return for grants that included a small but tacit degree of equalization and recognition of fiscal need. Quebec would not sign any rental agreements – and forfeited the grant money. Ontario was off-and-on. Other provinces played hardball over the size of their compensatory grants and tax abatements. By now, the identities of the richer and poorer provinces had changed: in the early 1870s, British Columbia and the North-West Territories were poor relatives – actually fiscal burdens – on the wealthy provinces of Ontario and Quebec. By the mid-1950s, British Columbia and Ontario were wealthy, Alberta was close to the time when it

would no longer qualify for equalization (1965), and Quebec was a recipient. Atlantic Canada remained in fiscal need.

Meanwhile, the pressures for expanded social citizenship would not go away. National advocacy groups and key provincial premiers such as Saskatchewan's Tommy Douglas kept pushing Ottawa to expand the social envelope. The First Ministers discussed national programs for hospital care and social assistance while the poorer provinces outlined the limits of their financial resources. They did not have the revenues to meet their existing social responsibilities, let alone their citizens' often-eloquent social demands.

The dilemma became intense. But, as Canadians redoubled their demands for expanded social security during the two decades following World War Two, government elites as "sites of autonomous action" had to "intersect in varied ways with economic and social transformations."<sup>4</sup> Those elites picked their way between the treacherous shoals of provincial rights such as language and culture, particularly in Quebec, and the forces for expanded social citizenship.

By the mid-1950s, this undertaking became ever more hazardous. Some poorer provinces wanted Ottawa to introduce key social and economic programs unilaterally – out of its own tax revenues; many provinces wanted Ottawa to transfer cash to their governments so that *they* could extend their own social safety net. Advocacy groups – for women, labour, the needy, the churches and educational institutions – adopted varying suggestions as to where the money for social programs should come from. Business groups such as the Canadian Chamber of

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<sup>4</sup> Skocpol, pps. 42, 39.

Commerce could slow the expansion of social security with calls for budgetary restraint – but they could not stop it.

I maintain that at least two initial conditions for reform were necessary. One, there had to be a changing of the guard in Ottawa: Mackenzie King was too cautious about increased federal spending – and exceedingly wary about undertaking projects such as nationwide hospital care that might set Ottawa on a collision course with Quebec.

Two, his successor, Prime Minister Louis St. Laurent, had to change his approach. St. Laurent had spent much of his career within the Ottawa establishment, absorbing its approach to federalism, and he initially adhered to the mindset of continued federal fiscal control. Indeed, Ottawa politicians and bureaucrats viewed such control as essential to preserve the federation from the centrifugal tug of provincial governments, especially Quebec with its fierce defence of provincial rights. In his first years in power, St. Laurent transferred funds for improvements to universities directly – over Quebec Premier Maurice Duplessis's vehement objections.

By the mid-1950s, such approaches could not continue. The dilemma was fraught. Ottawa could not barge into areas of provincial jurisdiction such as hospital care – and run national programs. But the poorer provinces could not create programs that were roughly similar to those in the wealthier provinces without extra funding or impossible levels of taxation.

St. Laurent was uneasily aware of the need to maintain good relations with his home province. He was also uneasily aware that the tax rental agreements – which Quebec would not sign – were penalizing the provincial government financially.

Eventually, the province and Ottawa were imposing double taxes on the wealthiest of Quebec's citizenry. St. Laurent had to broaden his outlook to see the federation as a dynamic and evolving entity. When the war of words between the Prime Minister and the Premier escalated dramatically, St. Laurent backed down. He decided to separate the grants that compensated the provinces for fiscal need from the tax rental deals. In January 1955, St. Laurent settled the tax dispute with Quebec through retroactive payments and astute adjustments in Ottawa's tax rates.

A few days later, the Prime Minister told the Premiers, with the exception of Duplessis, that Ottawa "had no intention of abandoning the *objective* of the tax rental agreements which is to make it financially possible for all provinces, whatever their tax base, to perform their constitutional functions themselves and to provide a reasonable Canadian level of provincial services without an abnormal burden of taxation. That is the foundation of the policy of the federal government."<sup>5</sup> In effect, the dispute with Quebec had forced St. Laurent to look for a better way to handle inequalities among the provinces – without centralizing their revenues. The tax-rental deals were nearing their end.

This thesis has shown that the Prime Minister was involved in this settlement. He had been the Francophone Counsel for the Royal Commission on Dominion-Provincial Relations, which had devised the National Adjustment Grants. He now worked with the cabinet and Finance Ministry official J. J. Deutsch who had been the assistant research director – and then the research director – of that Royal Commission. Both St. Laurent and Deutsch knew about the Australian model of

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<sup>5</sup> Letter from Louis St. Laurent to all provincial premiers with the exception of Quebec Premier Maurice Duplessis, as quoted in R. M. Burns, p. 111-112.

using “fiscal need” in spending as a gauge for remedying inequality. They also understood the Royal Commission’s model of National Adjustment Grants, with its funds for key social services and infrastructure. St. Laurent oversaw the search for formulas as the chair of a three-person cabinet committee to oversee preparations for federal-provincial talks.

Most importantly, the federal cabinet received new studies from the Finance Ministry on the Rowell-Sirois adjustment grants, the Commonwealth Grants Commission and other models such as the United States approach to grants. Month after month, under cabinet scrutiny, the bureaucrats hammered out an equalization scheme that St. Laurent presented to the Premiers during the first week of October in 1955. The Premiers were divided about the wisdom of the approach – the poorer Maritimes wanted more money from Ottawa, Ontario wanted Ottawa to send less money to them – but no Premier was furiously opposed to the principle.

In February 1956, St. Laurent outlined the proposal – and how those unconditional payments would work. Unlike the Australian model, his government did not link equalization payments with provincial spending. Nor did it link the size of the grant to specific provincial spending, as the Royal Commission had advocated. Instead, equalization would compensate provinces for inequalities in their per-capita average capacity to raise key revenues. The First Ministers’ Conference on March 9, 1956 sealed the deal, despite dissent. The poorer provinces still wanted more money. The richer provinces, particularly Ontario, predicted dire outcomes from such forced generosity. But Ottawa proceeded with the necessary legislation. It was using money from federal taxpayers – and no province could block the deals.

Equalization was non-conditional. Provinces did not have to apply. They could spend the money in any way that they pleased. In the beginning, the formula was relatively straightforward: It was based upon the average per-capita collections from three major taxes in the two wealthiest provinces of British Columbia and Ontario. All provinces were then brought up to that level, which included a payment for British Columbia.

While provincial governments would later lobby endlessly for changes in the formula to suit their needs, they were free from Ottawa's heavy hand in the tax-rental deals. In November 1957, the succeeding Conservative Government re-opened the 1957-1962 tax rental deals, providing adjustment grants to the hard-pressed Atlantic Provinces. Ottawa later mollified Ontario by providing a larger share of 1958-1959 personal income tax revenues, moving the rebate from 10 to 13 per cent.<sup>6</sup>

Historian Penny Bryden notes that "a coherent system of equalization" was only possible when "two preconditions were met: the federal government began to tap into Ontario's rich fiscal capacity, and Ontario agreed on a political level to this form of redistribution. When those two prerequisites had been fulfilled, in the late 1950s, Canada was able to embark on a course of development that would leave commentators at century's end heralding equalizing."<sup>7</sup> In effect, the Ontario

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<sup>6</sup> Robert Bothwell, Ian M. Drummond, John English, *Canada Since 1945: Power, Politics, and Provincialism* (Toronto: University of Toronto Press, 1981) p. 237.

<sup>7</sup> P. E. Bryden, "The Obligations of Federalism" in *Framing Canadian Federalism*, eds. Dimitry Anastakis and P. E. Bryden (Toronto, University of Toronto Press, 2009) p. 76. Bryden does not note Ontario's increased share of PIT.

economy had to generate more wealth for Ottawa – *and* for the provincial government – before such formal sharing became acceptable to all.

Bryden's argument certainly accounts for part of the delay in the implementation of equalization. But there were other factors behind the twelve-year post-war delay in equalization than the improvement in the Ontario and federal fiscal position. The Canadian federation is unusually complicated: It encompasses a tacit pact between the two nations of Francophones and Anglophones. (Although most French-speaking Canadians were in Quebec, the population also included Acadians sprinkled through the Maritimes and the Métis in Manitoba.) When Ottawa emphasized the importance of maintaining its traditional control over its revenues, Quebec with its majority francophone population resisted wholeheartedly, citing its constitutional rights to its revenues and its implicit position as the special defender of Francophones within the federation.

It was a dangerously prolonged impasse. The grants to the poorer provinces were small. Ottawa could not fight Quebec forever: Quebec was losing those compensatory grants. The perils from discriminating against a key federal partner were too strong. By the mid-1950s, as the third post-war deal came up for discussion, Ottawa had to change course. Caught between the pressure to expand nationwide social programs and the refusal of Quebec to go along with its ongoing schemes to centralize revenues, the federal government had to yield.

Equalization was a deft state-centred compromise. Fiscal disparities among states can create regional identities that become bred in the bone, instilling



expectations and resentments in the minds of succeeding generations. They can imperil the hegemony of politicians and their most senior civil servants. They can disrupt economic efficiency and equity – if only because populations in poorer regions can receive inferior standards of services that ill-prepare them for their social and economic world *or* they can move to another province for better care.

The precise reasons for inequality may only capture the attention of the initiates – those politicians and civil servants within the inner circles of government finance. But the discourse of inequality can seep throughout the federation, arousing envy within the poorer provinces and acrimony within the wealthier provinces. If a nation-state is the geographic area over which citizens are prepared to share – to paraphrase sociologist Raymond Breton – then the vitality of the equalization program is an important indicator of social cohesion within the nation-state.

The introduction of equalization heralded the arrival of new social programs. In July 1956, before the first equalization cheques were in the mail, Ottawa agreed to pick up the tab for a portion of provincial social assistance for those who had exhausted their Unemployment Insurance benefits. In mid-April 1957, Ottawa agreed to fund fifty per cent of the costs of a specific set of provincial hospital and diagnostic services. The plan would take effect on July 1, 1958 – *if* six provinces representing a majority of Canadians agreed to participate. A few days later, six provinces signed up – and hospital care coverage commenced on July 1, 1958.

By the 1960s, Ottawa was applying the principle of equalization with more imagination. It transferred tax points to the provinces – that is, it allowed the provinces to occupy tax room that it had vacated – and then it ensured that

provincial revenue from those tax points was equalized. In 1964, after four years of fierce Quebec resistance, Ottawa established a so-called interim agreement on specific shared-cost programs: this pivotal arrangement allowed the provinces to opt out of social programs and finance their own plans in exchange for a tax abatement, *an equalization payment to bring the province up to what it would have received*, and an operating cost adjustment.

There were more innovations. In 1966, Ottawa introduced the formal Canada Assistance Plan, which picked up half of the costs of social assistance benefits and services. That same year, Ottawa passed the innovative Medical Care Insurance Act, which initially paid fifty per cent of the national average costs for physicians' services on an equal per-capita basis. By 1972, all provinces had embraced Medicare. In 1967, Ottawa introduced a cost-sharing agreement on post-secondary education: provincial governments could accept fifty per cent of the operating costs of such institutions or a specific per-capita amount.

In effect, equalization was the key to another quiet revolution. Indeed, it was an almost unnoticed revolution. But, without this transfer program, the social security network could not have expanded. By the mids-1960s, equalization was vital to national unity as the fiscal tie that bound the provinces to the nation-state. The wealthier provinces could count on equalization as a back-up plan if their fortunes changed. (Ontario briefly qualified in the late 1970s – and it is a recipient province in the 21<sup>st</sup> century.) The poorer provinces could provide relatively similar levels of services for relatively similar levels of taxation.

I do not claim that the equalization mechanism is perfect. It is an adjustable fiscal creation, neither inherently good nor bad. But it is immensely useful. It remains vital. Poorer provinces may flirt with dependency. (Fiscal analysts have wondered aloud if New Brunswick has rejected fracking because it is politically easier to pocket equalization than to earn those controversial resource revenues.)<sup>8</sup> Richer provincial governments have slipped into bouts of resentment. But somehow the power of non-conditional sharing has pulled us through.

Those annual transfers may have become part of the federal-provincial wallpaper. But Canada would not last without them.

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<sup>8</sup> Ben Eisen and Mark Milke, *Nova Scotia, New Brunswick, and the Equalization Policy Crutch* (Vancouver and Halifax: Fraser Institute and Atlantic Institute for Market Studies, 2014)

<https://www.fraserinstitute.org/sites/default/files/nova-scotia-new-brunswick-and-the-equalization-policy-crutch-rev2.pdf>

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